# **Improving access to government business for SMEs – Goods and services procurement guide**

## Why engage with SMEs?

The Victorian Government is committed to improving access to government business opportunities for small to medium size enterprises (SMEs). Small businesses provide 47 per cent of the State’s private sector jobs and contribute to almost 30 per cent of the State’s sales and output with a diverse range of products and services. The SME market is also a large player in delivering innovative solutions.

Other benefits of engaging SMEs are:

* Lower costs - Lower administrative overheads and management costs than larger firms. Potential for lower prices, depending on the nature of the procurement.
* Innovation - SMEs can deliver innovative solutions. For example:
  + early exploitation of new technology;
  + providing products or services in new or underdeveloped markets;
  + using innovation to differentiate themselves from established market players.
* Responsiveness:
  + Shorter management chains and approval routes-quicker response to changing requirements.
  + Focus on niche market sectors-more responsive to changes in those markets.
* Flexibility - Government contracts can be more important to SMEs due to the associated financial stability. They may be more willing to tailor a product or service to meet specific customer needs than a large firm selling established offerings.
* Quality service - Being a large customer of a small business can result in more personal levels of service and a better relationship with the supplier.
* Specialist services - Many SMEs supply higher quality specialist products or services than large suppliers, either because large suppliers are discouraged by the limited demand, or because the SME has greater skills, originality and commitment in that field than their large company competitors.

Access to the government procurement opportunities can provide stability and encourage growth of businesses. This can increase market competition which helps to drive better value-for-money outcomes and cost savings for government.

Procurement also provides a lever for achieving broader government objectives, such as improving small business development.

What is value for money? Value for money involves a balanced judgement of financial and non-financial factors. Typical factors include fitness for purpose, quality, whole-of-life costs, risk, environmental and sustainability issues, as well as price.

Did you know? Small businesses provide around 1.2 million private sector jobs, including owner-operators. They are a vital element of regional economy with 28 per cent of all small businesses based in regional Victoria.

## What is a small to medium enterprise?

The Australian Bureau of Statistics (ABS) defines a small business as an actively trading business with 0–19 employees and a medium-sized business as an actively trading business with 20–199 employees. Employment size ranges are based on headcount rather than a measure of full-time equivalent people.

Small businesses include SMEs and other types of organisations such as not-for-profits and social benefit suppliers (including Aboriginal businesses). Research shows that small business suppliers share similar business operation issues and face similar barriers when dealing with government procurement.

Social benefit suppliers are organisations and businesses whose mission is centred on a social purpose, and/or owned by groups or people who are considered disadvantages. By virtue of their ownership structure, social benefit suppliers channel economics and social resources into marginalised communities. Social benefit suppliers may include Aboriginal businesses, social enterprises, such as disability and social enterprises that generate employment and deliver other social outcomes.

A not-for-profit (NFP) organisation does not operate for the profit or gain of its individual members, whether these gains would have been direct or indirect. A non-profit organisation can make a profit, but this profit must be used to carry out its purposes and must not be distributed to owners, members or other private people.

## When to engage with SMEs

Early engagement with suppliers—directly and through notification of procurement activity—is central to enhancing SME participation in the government marketplace.

When you approach the market, you should consider how to adapt your procurement processes to facilitate SME participation.

SME engagement should be an element of the organisation’s supplier engagement plan.

When to engage with SMEs in the procurement lifecycle

When to engage with SMEs in the procurement lifecycle:

* As part of annual planning, consider SMEs when:
  + Create procurement activity plan
  + Identify category
  + Gather market intelligence
* As part of annual planning, investigate scope for SME market when:
  + Conduct complexity assessment per category
  + Conduct capability assessment to match complexity
  + Develop category contract management strategy
* As part of an individual procurement activity, during the sourcing phase, think about engaging SMEs when:
  + Review procurement requirement
  + Conduct market analysis
  + Develop plan for market approach
  + Evaluate negotiate and select supplier
* As part of an individual procurement activity, during the contract management phase, think about engaging SMEs when:
  + Create a contract
  + Commit to a contract
  + Manage contract
  + Contract review or closure

## How to engage with SMEs

There is no easy way to engage with the SME sector. Many small businesses do not belong to industry associations. However, there are a number of resources that organisations can use to increase knowledge sharing and inform the sector about organisational processes and upcoming opportunities.

The following table provides general advice on good practice in supplier engagement. Tasks that are particularly relevant to SMEs are marked with an asterisk (\*).

|  |  |
| --- | --- |
| Action | Detail |
| Procurement process | * Explain the process, and what will be required from suppliers at the outset. Early and broad market engagement is a key activity in investigating options for innovation. * Ensure the process is appropriate to the size and complexity of the procurement (simplify electronic tools/transparency/shorter documentation). * Set a realistic and transparent response timetable. Keep suppliers informed of any changes to timeframe (consider that suppliers new to government business need time to respond). |
| Visibility of opportunities/ risks and transparency | * Use your departmental website to provide information for suppliers. Consider including a document on how procurement works in your department. * Publish contact details for both general procurement questions and specific opportunities. * Know your target market. Through market analysis, understand the suppliers that are capable of bidding for your contract, whether there are SMEs in the marketplace and how to best inform/engage with them.\* * When engaging SMEs, consider all associated risks including financial, capability and resource stability. |
| Large contracts | * Consider defining the procurement need into smaller parcels manageable by SMEs as there are still opportunities through aggregated purchasing or large contracts to involve SMEs as part of the primary supply chain \* * Reduce the administrative burden on SMEs by simpliflying pre-qualification forms when running a competitive procurement for low-value procurement activities.\* * It is important to select suppliers that are financially sound and capable of delivering solutions. However, this does not necessarily mean selecting the largest suppliers with the most extensive track record.\* |
| Managing the supply chain | * Where appropriate, ask your principal suppliers to indicate how SMES gain access to their subcontracting opportunities.\* * Be open to consortia bids from SMEs as this is one way in which small businesses can tackle large procurements.\* * Ensure visibility of types of suppliers involved in the supply chain.\* |
| Specifications | * Make requirements clear and unambiguous, and avoid jargon. * Avoid over-specifying the requirement. (i.e.,insurance/indemnity requirements do not inadvertently exclude SMEs from the process). * Only specify industry standards where necessary. * Ensure suppliers are aware of the evaluation criteria, weighting methodology and selection process and keep them informed of any changes. |
| Public tenders | * Public tendering is considered to be an onerous process by SMEs. This must be taken into consideration when approaching the market. * Avoid unnecessary financial, legal and/or administrative requirements that might exclude SME participation.\* * Make all tender requirements and instructions clear including indication of anticipated timeframes for completing various tender process stages. |
| Performance management | * Monitor and report on the department’s actions in engaging with the SME sector.\* |

## Current government initiatives

Government procurement policies provide the framework to achieve value for money from public sector procurement while being fair, ethical and transparent. There are a number of commonwealth and state policies that government entities must consider during procurement planning. The following table lists some of these initiatives, which may help you improve your organisation’s supplier engagement plan.

|  |  |
| --- | --- |
| Policy | Description |
| Victorian Government  Purchasing Board (VGPB) Policy | The VGPB’s procurement reform framework is focused on early market analysis and supplier engagement.  Consider SME engagement at the planning stage and improve trasparency of procurement opportunities. |
| Local Jobs First Policy (LJF) | Local Jobs First comprises the Victorian Industry Participation Policy (VIPP) and the Major Projects Skills Guarantee (MPSG). LJF is a Victorian Government policy, under the *Local Jobs First Act 2003*, designed to ensure that local small and medium size enterprises are given full and fair opportunity to compete for government contracts, helping to create job opportunities, including for apprentices trainees and cadets. |
| Regional Growth Fund (RGF) Policy | The RGF policy is the Victorian Coalition Government’s $1 billion commitment over eight years to drive regional development across the State. It will support regional cities and country communities to create new prosperity, more opportunities and a better quality of life. |
| Fair Payments Policy | The Victorian Government is committed to including a fair payments clause into Government contracts, to improve cash flow certainty for SMEs. |
| Free Trade Agreements (FTA) | Australia is required to meet certain legal obligations in relation to FTAs. Australia has a number of FTAs currently in force that contain government procurement provisions including with New Zealand, Singapore, Thailand, US, Chile, Japan and Korea.This list is current at the time of writing however for full details refer to the [Department of Foreign Affairs and Trade](https://dfat.gov.au/trade/agreements/pages/trade-agreements.aspx) |

## Resources

There are a number of resources available to help departments understand and/or engage with the SME market:

* **Business Victoria (BV):** Runs a Winning government business seminar which is popular with SMEs. Departments may liaise with BV to use these seminars as an opportunity to inform SMEs on how and when they can get involved in the department’s procurement activities.
* **Industry Capability Network (ICN):** Is a not-for-profit organisation funded by the Victorian Government to support the delivery of Local Jobs First. They offer personal advice and expertise on the supplier landscape in Victoria and are a good resource for departments to identify competitive local industry capability and providers. The ICN also provides support to Australia and New Zealand SMEs seeking opportunities to participate in Victorian Government procurement.
* **Office of the Victorian Small Business Commissioner (VSBC):** Departments could leverage the VSBC functions in dispute resolution and small business service charter to improve relationships with SMEs.
* **Supply Nation (formerly the Australian Indigenous Minority Supplier Council):** The Victorian Government is a member of Supply Nation (SN). Departments must consider Indigenous suppliers on the SN database as part of market analysis.
* **Social Traders:** Host events and carry out a range of activities to raise awareness about social enterprises and their benefits. Procurement practitioners could attend these events and investigate opportunities to engage with these suppliers.
* **Victorian Council of Social Services (VCOSS):** Helps raise awareness on social disadvantages. They can help government by providing evidence-based research and reports on policy issues.
* **Social Procurement Framework (SPF):** Victoria’s Social Procurement Framework puts social and sustainable outcomes at the centre of the Government’s procurement activity.

## Using this guide

This guide accompanies the [goods and services supply policies](https://buyingfor.vic.gov.au/goods-services-supply-policies). There are 5 supply policies:

* Governance policy
* Complexity and capability assessment policy
* Market analysis and review policy
* Market approach policy
* Contract management and disclosure policy

This guide supports the [Governance policy](https://buyingfor.vic.gov.au/governance-goods-and-services-policy-and-guides).

A number of VGPB policies and guides refer to engaging with SMEs early in the planning process:

* [Governance – Goods and services policy](https://buyingfor.vic.gov.au/governance-goods-and-services-policy-and-guides) (procurement strategy)
* [Complexity and capability – Goods and services policy](https://buyingfor.vic.gov.au/complexity-and-capability-assessment-goods-and-services-policy) (spend and market analysis)
* [Identifying procurement categories – Goods and services procurement guide](https://buyingfor.vic.gov.au/identifying-procurement-categories-goods-and-services-procurement-guide)
* [Innovation and the procurement process – Goods and services procurement guide](https://buyingfor.vic.gov.au/innovation-and-procurement-process-goods-and-services-procurement-guide)

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