

Procuring SMEs

- Insight into better procurement
for SMEs



Procuring SMEs

The Constructing Excellence Procurement Group explored the challenge of procuring SMEs on 11th May 2022. SMEs bring tremendous value and innovation to projects but often struggle to break into larger contracts and frameworks. Two of CE's members, [LHC](#) and [Cara EPS](#) shared the industry-leading ways they approach this issue.

Frameworks Approach to Micro-SMEs

Shona Snow, Head of Procurement, London & South East at **LHC** shared details of the Architectural Design Services Framework in which they have had tremendous success engaging micro-SMEs.

LHC were working with Southward Council on their Architectural Design Services Framework. One of the framework's objectives was to appoint organisations that 'reflect the region the framework serves.'

The value of micro-businesses

While there is a need for larger organisations on the framework, small, local firms can avoid blueprint design approaches and bring a more diverse and localised approach. Many of the established organisations are already on frameworks, and their expertise means they are well placed to gain places on frameworks and can undoubtedly bring value. In a bid to bring in new talent **LHC** specifically targeted micro-SMEs who had never worked with public sector clients before. These organisations bring a more precise customer focus and greater flexibility and adaptability. SMEs and micro-businesses demonstrate a less mainstream approach to social value but inherently deliver it as they are more likely to employ locally and be anchored in the local community.

Removing common barriers

A different approach was required to bring these SMEs onto the framework. Many in the target community were skeptical about frameworks based on previous experience and **LHC** had a lot of convincing to do that this one would be different.

Market Engagement - **LHC** had to work hard to reach the target SMEs, through 1-2-1s and open conversations.



Remove Minimums - Minimum construction value and turnover bands can often preclude SMEs and lead to the appointment of the same cohort of organisations that can meet those criteria. **LHC** removed minimum values for certain lots within the framework where this was not necessary.



Previous experience - particularly in the design community firms may be new but allowing their teams to passport previous experience provides a great way to recognise expertise. In this case **LHC** allowed experience in the past 7 years.



Remove standard questions - LHC looked at the principles of the framework and its objectives. Standard questions that didn't align with those principles were removed to reduce the cost of bidding for firms.



Clear intent - Lots of the framework was reserved solely for SMEs, clearly indicating that the client wanted to work with SMEs.



Interviews- LHC recognised the value of local lived experience and knowledge in design. Face-to-face interviews were conducted with all applicants and scored based on framework objectives, EDI, and engagement with 'hard-to-reach communities'. Interviews were critical as SMEs often live and breathe EDI but may not have specific policies in place and struggle to communicate the value they bring. Whilst there are challenges around ensuring interviews are fair, it is possible.



Focus on the intent of the framework - Legal teams should not dominate the procurement process. The objective of the framework should be most important and overly restrictive approaches should be avoided.



Client leadership - Southward Council had a strong desire to engage local micro-SMEs in the framework, which has helped to drive better outcomes.

Results so far

The approach is proving successful with a good mix of traditional practices and emerging innovative micro-practices who rarely get onto frameworks and strong lived experience. There is a good of diverse communities and experiences in the firms appointed to the framework that is much more representative of the local community.

The framework is looking at how to improve the SME experience including updates to contract terms, and pre-tender briefings. The first contract has been awarded to a 2-employee company. LHC facilitates knowledge sharing and joint buying opportunities for framework participants, including insurance, software, and community engagement tools. The principles are now being applied to the Multi-Disciplinary Consultancy Framework.

The SME Perspective

Mark Beirne, Managing Director of **Cara EPS** provided an excellent overview of how he is bringing together a consortium of SMEs to collaboratively deliver bigger jobs that they would not have been able to win or deliver working alone. Mark has been a long-time supporter of Constructing Excellence and an advocate for collaboration. Cara EPS demonstrates what a significant role SMEs can play when they come together to service bigger market opportunities.

Cara EPS was launched in May 2021 by Cara Group, a 30-year-old multi-disciplinary SME contractor. Their vision was to set up a specialist contractor to deliver into the retrofit sector. Their first steps included some internal and external analysis:

Market Research - Mark's presentation clarified the need for SMEs to thoroughly research their target market and understand the challenges and opportunities.



Understand capabilities - Analysis of the retrofit indicated that it was different from the other markets, such as utilities and nuclear decommissioning that Cara was active in. It was critical to understand that difference and where they needed to upskill and change their internal mindsets. There was an opportunity for medium-sized companies with lower overheads and closer to delivery but with greater capacity and capability than the micro-SMEs.



Fragmented market - From an external perspective, many large organisations are involved in retrofit, but micro-SMEs predominantly serve the sector. Those Micro-SMEs tend to be specialists in single-measure focussed such as solar installers. It is driven by factors including climate change, increasing fuel poverty, and energy company obligations (ECO).



Lack of integration - Cara discovered a distinct lack of integration. Procurement mechanisms meant that core functions such as surveying and delivery, data, and data analysis were separated.



Quality issues - A lack of regulation when grants were introduced 10-15 years ago has led to historical quality issues, making private householders difficult to access. The introduction of PAS2035 on Whole House Retrofit and being accredited to that standard provided Cara with an opportunity to differentiate on quality.



Pipeline - The short-term nature of many of the interventions and lack of a clear pipeline makes it difficult to invest. The nature of funding meant lots of single measures were being procured, which is an ineffective way to unlock value.



Social housing - Focussing funding on social housing providers has helped the market as suppliers are dealing with more informed clients rather than millions of different households.

Collaboration

Cara set out to become a one-stop-shop for whole-house retrofit. Recognising they did not have all the skills to deliver that they sought out other micro-SMEs with digital and surveying expertise. IRT - a digital surveying company, and Michael Holden - a building surveyor, came on board. The three organisations were able to do an end-to-end retrofit service. Cara is looking to expand the collaboration with other micro-SMEs that bring innovation and quality service.

To be procured and understood in the market, they had to establish a single entity as clients struggled to procure the three organisations separately. This was done under a **Joint and several agreement** ([Joint and several liability in building design and construction contracts - Designing Buildings](#)). Once this was in place, they were able to be appointed onto frameworks and start working with Greater Manchester Combined Authority. Cara as the main contractor, is used to taking on and managing risk so it accepts a larger proportion of the risk, while the smaller companies aren't used to taking on risk but bring huge value, so they are operating on a profit share arrangement. This is a fluid arrangement that companies can get involved with for different projects and programmes. Putting this in place and getting it working effectively required considerable trust and openness from all parties. It also required frank discussions around defining profit, risk and where value was added. All parties must remember that the collective profit was considerably greater than their combined individual profits.

Client behaviours

Fragmentation from clients and funding streams doesn't drive value in the Retrofit market. Due to deadlines and constraints on funding large sums of money are being spent on single measures that do not drive long-term value or outcomes. Worse still there could be unintended consequences through the impact of badly installed measures. Most of the funding is focused on Local Authorities and Housing Associations.

Stop-start funding means that the delivery gets rushed. The Local Authority Decarbonisation Scheme (LADS) for example, took six months to scope and allocate to local authorities, leaving only six months to spend the money including procurement. This means delivery gets squeezed making best practices and delivering long-term value very difficult to achieve, an unintended consequence of poor procurement.

Some of the funding focuses on getting measures done rather than taking a long-term view of understanding the exact nature of the stock and taking a fabric-first approach to delivering better outcomes. Funding focussed on delivering to a certain number of dwellings means that the intervention per dwelling makes fabric first unachievable so an easier measure will be installed, and the same property might be targeted for another measure in a few years' time, ignoring the fact that doing a whole-house approach is more cost-effective in the long run. Clients' desire to have a single point of responsibility creates challenges for SMEs. They do not want to pursue 3 or 4 different entities. CE Member Solomons Europe has been taking on a similar challenge in Teesside bringing together a consortium of specialist SMEs with the capability to deliver a £10 million project, but unable to do so acting alone. The problem rests with the client wanting to have clarity over a single entity. Solomons are exploring an unincorporated Joint Venture and there are robust conversations about what that entails, in terms of investment, governance, and risk. Insurance-backed alliancing can enable that collaboration without the need to set up a separate legal entity.

About Constructing Excellence

Constructing Excellence is a movement that brings together all parts of the construction supply chain to drive industry improvement through sharing, learning, working together and driving innovation to deliver a demonstrably better built environment. Constructing Excellence is a platform to stimulate, debate and drive much-needed change in the Construction sector, operating at a national, regional, and local club level. Through Generation4Change it is empowering a new generation of industry leaders.

Constructing Excellence focusses on Words into Action and equips its members with the inspiration, insight, and connections to implement innovation and best practice.

CE Procurement Group: [Procurement Group - Constructing Excellence](#)

www.constructingexcellence.org.uk

Get involved

Constructing Excellence welcomes all organisations that share our values and mission. Get in touch to find out how your organisation can become part of the UK's leading movement for change devoted to delivering excellence in the built environment.

helpdesk@constructingexcellence.org.uk



@constructingexc

Constructing Excellence, BRE,
Bucknalls Lane, Watford, Herts, WD25 9XX

Constructing Excellence is committed to reducing its carbon impact.