

# **Small and Medium Enterprises Policy Framework Review Report**

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# 1. Executive summary

The NSW Government Procurement: Small and Medium Enterprises Policy Framework is a key NSW Government procurement reform. The policy improves access by small to medium enterprises (SMEs) to government goods and services procurement by opening up opportunities.

It supports competition and reduces the administrative burden on SMEs. The SME Policy Framework aims to maximise opportunities for SME participation in government procurement. Developed through consultation with industry and agencies, it provides significant enhanced support by:

- Increasing direct opportunities for SMEs to gain government business - mechanisms include SME targeted supplier panels and prequalification schemes, and government exemptions to purchase goods and services directly from SMEs, regardless of some existing government contracts.
- Providing greater accessibility for SMEs to government procurement opportunities, such as simpler contracts and contracting processes, SME opportunity statements and SME participation plans.
- Removing or minimising, where possible, barriers to government procurement opportunities.

NSW Procurement with the NSW Small Business Commissioner engaged with over 10,000 SMEs to understand what was inhibiting SMEs engaging with the NSW Government. The recommendations and challenges are summarised below.

# 2. About the Review

NSW Procurement in collaboration with the Office of the NSW Small Business Commissioner (OSBC), engaged with over 10,000 small and medium enterprises (SMEs) to review the SME Policy Framework, and to understand what was inhibiting SMEs from engaging with NSW Government procurement. NSW Procurement, in close consultation with the OSBC has developed the SME and Regional Procurement Policy (effective 1 February 2019) which has replaced the NSW Government Procurement: Small and Medium Enterprises Policy Framework and incorporated recommendations made through this review.

# 3. Objectives of the SME Policy Framework

The SME Policy Framework was introduced in 2012 with the following objectives:

1. Recognise local industry capability and enhance industry competitiveness
2. Give SMEs greater opportunities to access government goods and services procurement and compete on a value for money basis
3. Make doing business with government simpler, easier and more attractive.

Overall, the objectives of the SME Policy Framework are still valid, and well understood by government agencies. Interviews with approximately 70 NSW government procurement officials showed that while it is sometimes difficult to operationalise, and practical guidance would be helpful, most people are aware of and agree with the government's objective to increase participation by SMEs in the public procurement process.

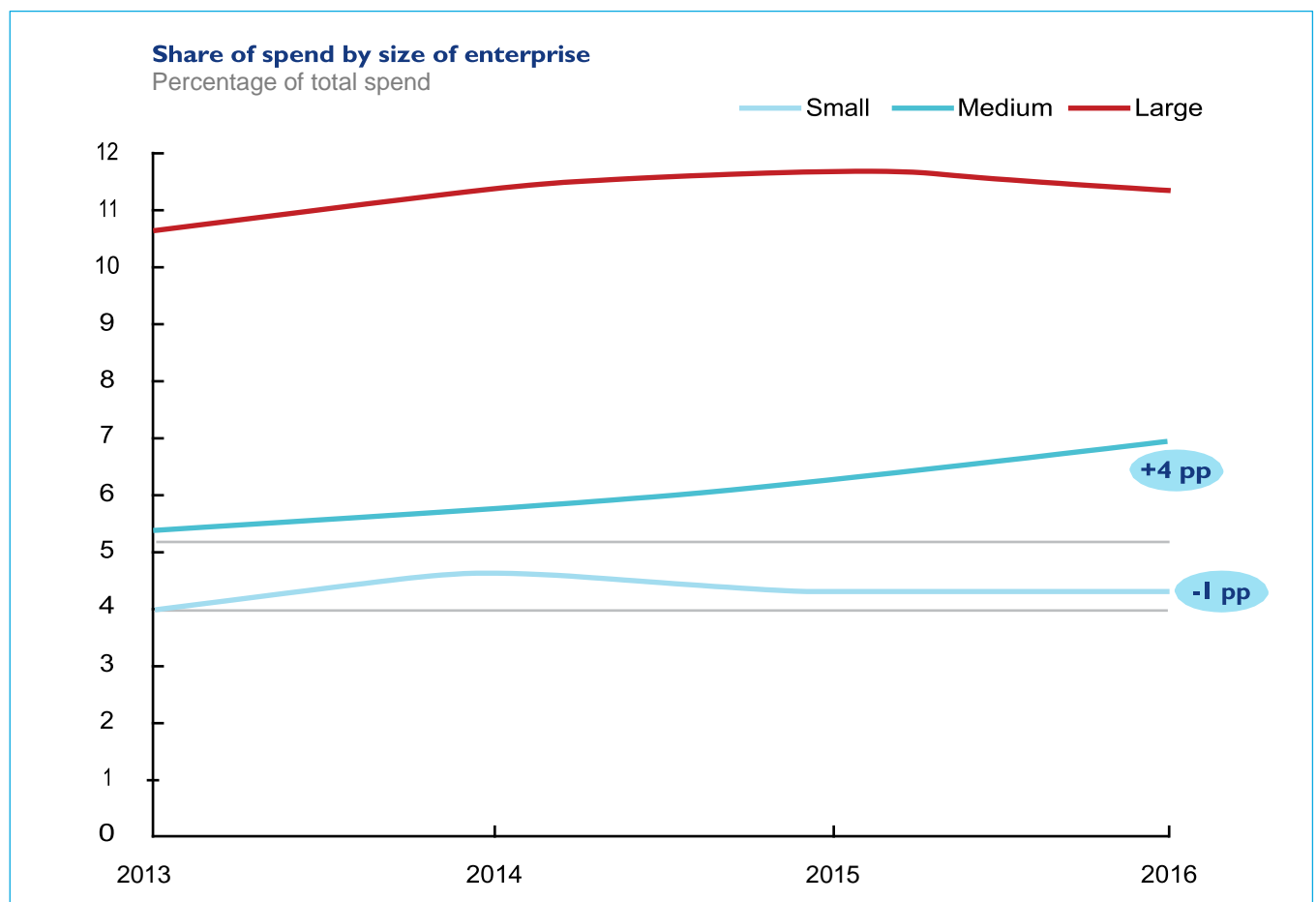
# 4. Key Findings

## 4.1 Impact of specific initiatives

The impact of specific initiatives to implement the policy have had mixed success. While SME participation and spend has increased since the introduction of the SME Policy Framework (20% increase in SME spend relative to 14% increase in spend overall), most of this growth has come from 'medium' rather than 'small' businesses (see Table 1 below). Many of these 'medium' businesses are actually large corporations, but were recorded as SMEs due to poor data capture.

Survey results also showed divergent trends with small and medium businesses valuing different initiatives (see Table 2 below). Small businesses are not in a position to participate in competitive processes – a simple system of engagement is needed. Medium businesses are better able to compete, but need support to build their go to market capabilities. For example, when asked which of the SME policy initiatives were most effective, briefings for complex tenders was selected by 43% of businesses with 20-199 employees, whereas only 17% of businesses with less than 5 employees found this initiative helpful. The 'SME' definition of any business with less than 200 full time equivalent employees is not a meaningful policy tool and should be segmented into at least 'small' and 'medium' categories. Better quality data is also needed.

**Table I: GROWTH IN SME SPEND DRIVEN BY MEDIUM BUSINESSES**



- The range of initiatives in the SME Policy Framework were rolled out between Q4 2012 and Q1 2013

- Since then the share of spend on medium enterprises has increased, but the share of spend on small enterprises has not

**Table 2: DIFFERING NEEDS OF SMALL VS MEDIUM BUSINESSES**

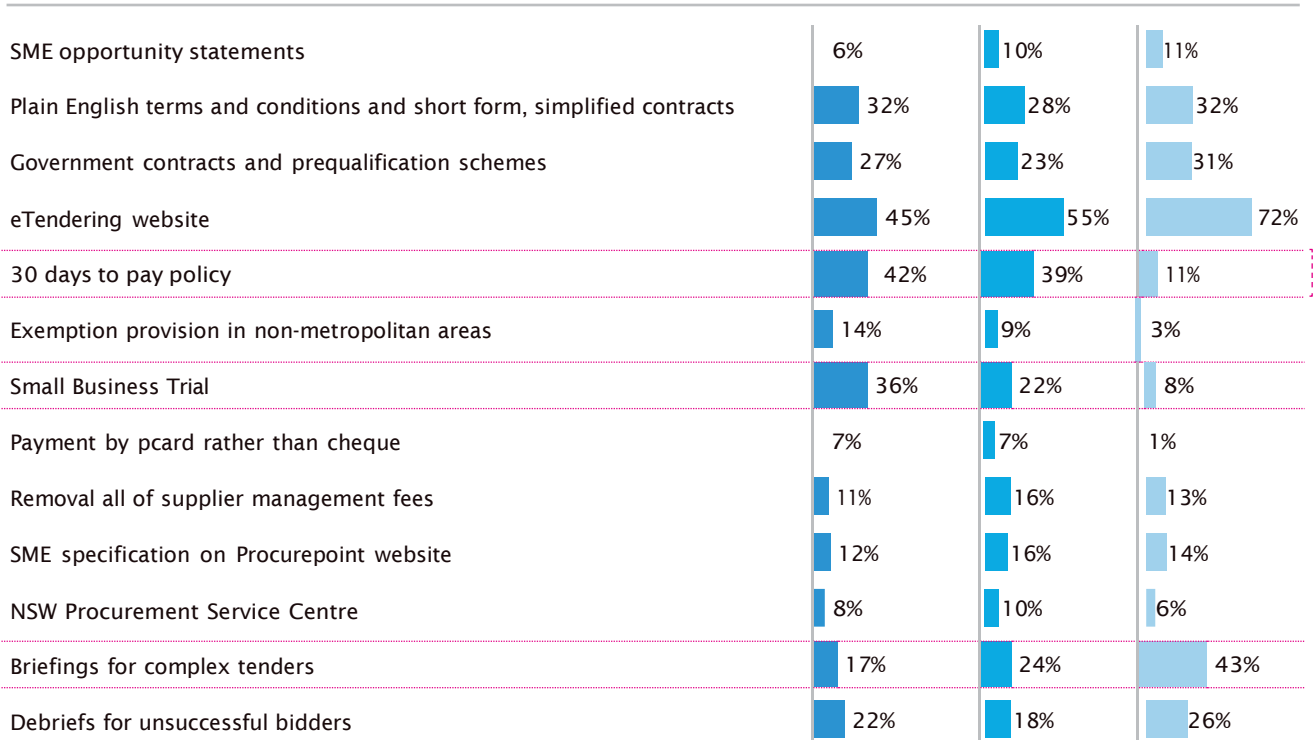
**Small and medium business show divergent trends and have different needs**

■ 1–4 employees   ■ 5–19 employees   ■ 20–199 employees

The smallest businesses found initiatives specifically targeted to them (30 day payments and small business trial) most helpful, while medium businesses favoured initiatives to help them compete better (tender briefings)

**Most effective initiative to maximise opportunities for SMEs to participate in government procurement**

% of times chosen as one of the three most effective



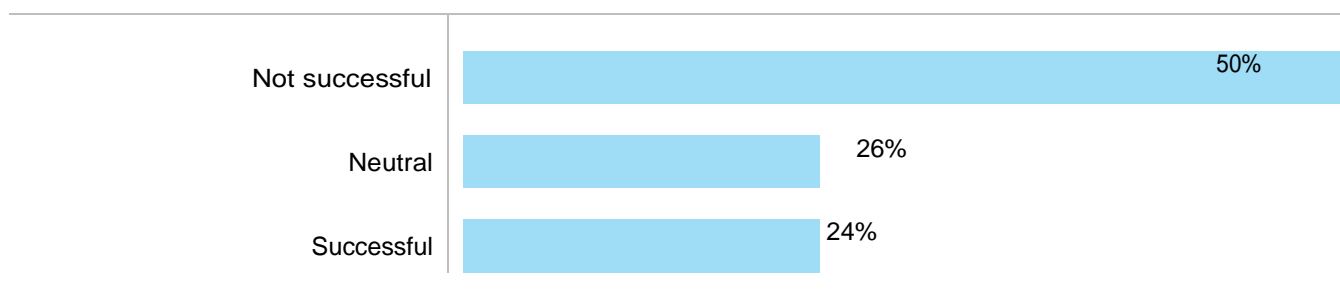
Further, while some initiatives such as prequalification schemes and shorter payment terms are seen as a success, overall, 76% of SMEs are ambivalent or feel the objectives of the SME policy framework have not been successfully met (see Table 3 below).

**Table 3: SME VIEWS ON SUCCESS OF SME POLICY OBJECTIVES**

76% of SMEs are ambivalent or feel the objectives of the SME Policy Framework were not successfully met

**Responses to question on success of NSW government in achieving the objectives of the SME Policy Framework**

% of respondents<sup>1</sup>



<sup>1</sup>Survey responses were on a scale of 1-10 where 1 = not at all successful, and 10 = extremely successful. Responses 1-4 have been aggregated to “not successful” and responses 6-10 have been aggregated to “successful”, N = 920; Source: SME survey analysis

Awareness is also low – a large proportion of SMEs are unaware of many initiatives, suggesting communication channels are ineffective (see Table 4 below). There are some initiatives, such as opportunity statements and participation plans, which SMEs don’t see as adding value, but are seen as creating red tape by some agencies and tenderers.

**Table 4: SME AWARENESS OF KEY INITIATIVES**

Current communication channels are not effective – large number of SMEs not aware of key initiatives

**Percentage of respondents who responded they were unaware of initiative**

Initiative	Percentage not aware
Pcards	61%
Exemptions	58%
Small business trial <sup>1</sup>	54%
Service centre	47%
Procurepoint website	46%
Tender debriefings	41%
Tender briefings	38%

<sup>1</sup> Small business trial allows government agencies to purchase goods or services valued up to \$30,000 (including GST) from a registered small business (annual turnover less than \$2 million), despite those goods and services being available on whole of government contracts. Awareness low regardless of size. ‘Not aware’ response was 51% for 1-4 employees; 58% for 5-19 employees and 51% for 20-199 employees. N=706.

## 4.2 Engagement process

A simple, direct engagement process is needed to move the needle on 'small' business participation, enabled by a digital marketplace.

Engagement with small businesses highlighted the reality that no matter what assistance is provided, small businesses are not in a position to dedicate the time or resources needed to participate in a competitive procurement process, especially for work of small value.

There are many design options, but the most effective would be to permit direct engagement of 'small' businesses for low risk work under a certain threshold (e.g. there is acknowledgement that the \$30 000 threshold for the Small Business Trial is too low, and some have suggested at \$100,000 limit may be more appropriate).

This should be enabled by a user friendly 'digital marketplace' platform where 'small' and medium businesses are tagged (separately) such that agencies can directly purchase from them without the need for a competitive process or complex registration requirements.

A business' ability to remain eligible for direct engagement through the digital marketplace would be subject to meeting quality metrics – actioned through feedback and endorsements (e.g. similar to Uber).

A digital marketplace would provide transparency on repeat engagements and price – periodic audits could ensure suppliers are not significantly above market rates.

## 4.3 Go to market capabilities

Medium enterprises need support to improve their go to market capabilities.

Medium enterprises generally suggested that they have enough scale to participate in (simple) competitive processes but need help with building capability to compete well against larger businesses. The SME co-design workshop resulted in a number of ideas to improve information and capability building including:

- Telephone advice line (including on how to pitch an idea to Government)
- Open days on 'how to work with Government'
- Training/capability building session on procurement process
- Procurement concierge

NSW Procurement should develop these programs and partner with the OSBC, Department of Industry, the NSW Business Chamber, industry associations and others to leverage existing communication and support networks accessed by medium business (especially given low rates of awareness of government initiatives).

# 5. Recommendations

The key initiatives to provide a direct engagement method for small businesses through the digital marketplace and capability building support for medium enterprises are key recommendations arising from this review. There are also a number of other minor recommendations to ensure the SME Policy Framework is optimised for impact. The full list of recommendations are:

- Redefine SMEs and develop strategies specific to their needs to inform targeted policy and process improvements.
- Use reliable and granular data sources and voice of the customer inputs to measure participation and other KPIs.
- Provide practical guidance to agencies on how to engage SMEs.
- Review participation plans and opportunity statements – consider accountability through transparent data sharing in digital marketplace.
- Target initiatives to specific needs of small vs medium enterprises – low bar procurement for small (consider fixed fees; leverage ‘easy to do business’ approach to streamline tender process) and capability building for medium (including open days and training on procurement process).
- Improve communication (consider improving website, dedicated phone service and concierge).
- Implement a digital marketplace that better matches needs of buyers with capabilities of small and medium suppliers (e.g. tag first customers, provide endorsements from referees, Google-type search).

## 5.1 Challenges these recommendations address

- The objectives of the SME policy framework are still relevant but agencies find it difficult to action without practical guidance.
- Since the introduction of the SME Policy Framework, SME participation and spend has increased. However, most of this growth has come from ‘medium’ rather than ‘small’ businesses. Survey results also showed divergent trends with small and medium businesses having different needs. Small businesses are not in a position to participate in competitive processes – a simple system of engagement is needed. Medium businesses need support to build their go to market capabilities.
- The data on supplier size and agency spend is poor quality – better and more granular data is needed to make ongoing evidence based adjustments to the policy approach to meet the needs of small and medium enterprises.
- The initiatives are not seen as a success by SMEs. Awareness is low – a large proportion of SMEs are unaware of the initiatives, suggesting communication channels are ineffective. There are some initiatives, such as opportunity statements and participation plans, which not only don’t add value, but also create red tape for agencies and tenders.
- Good procurement practices (e-tendering, simple contracts, prequalification schemes) are valued, have had positive impact, and could be further enhanced through user centered design approaches to process and systems.



## Contact details

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