

# HOW DO SMES GET INVOLVED IN MAJOR PROJECTS?

Highlights from the Major Projects Association event held on 16th May 2018

Small to medium-sized enterprises (SMEs) are often described as the lifeblood of the UK economy. Employing 7.3 million people per annum in 242,000 businesses, these companies contribute to 28% of the UK's GDP, turning over £100bn per annum. Aware of the importance of these businesses, government has set a target to ensure that one third of its spend on goods and services will be with SMEs, either directly or through supply chains, by 2022.

But despite this bold ambition, challenges remain for SMEs in the UK's major projects industry, which is known for its fragmented supply base. At this Major Projects Association event delegates heard more about barriers, as well as opportunities and new ways of working that are improving SME engagement, giving clients better value and ensuring that the Government meets its inclusion targets sustainably.

## COMPLEX MARKET

From an SME perspective the market has become more complicated over the past few years. Firms are increasingly engaged through prime contractors or are on frameworks. Direct engagement with clients is becoming far less common. Contractual arrangements are therefore more complicated and procurement processes lengthy and expensive. From a technical perspective the democratisation of information has moved the service offering from selling knowledge to selling the ability to apply it.

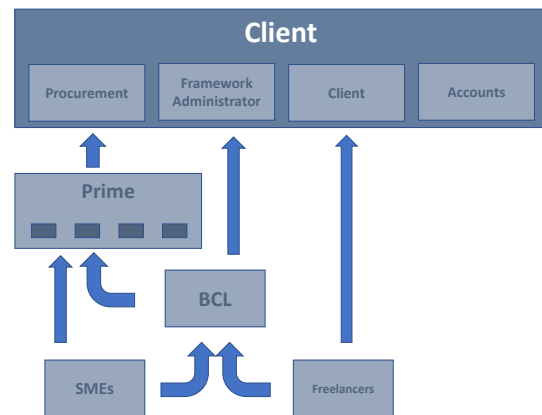
*'We quite often find ourselves bidding for work in a tender where if you look at the tendering cost for the bidders it exceeds not only the profit for the winner but the turnover for the winner, which is completely unsustainable for the supply chain.'*

Mike Robinson, Managing Director, Berkshire Consultancy Ltd

These pressures combined with onerous indemnity, insurance and intellectual property requirements are making SMEs increasingly selective about the clients that they work with. Public sector tendering portals, and a trend for junior staff to deal with SMEs, has made working with government clients much less attractive for small companies. This could be a major problem for public sector organisations which are competing for resources to deliver the £300bn pipeline of work

outlined in the [Industrial Strategy](#), deliver the [National Infrastructure Delivery Plan](#) and meet the [Construction 2025](#) targets.

Supply chain models in use today demonstrate the companies that are fighting for margin.



Mike Robinson, Managing Director, Berkshire Consultancy Ltd (BCL)

For Highways England this means that it is important to create the correct environment that enables SME participation while also delivering value for the organisation. SME involvement currently sits at 26%, but Highways England has set its target of 33% for March 2020. To become more attractive to SMEs Highways England has introduced a range of initiatives, including contracts of under £1m on the National Pavement Framework, contract clauses that enable SMEs to retain the background intellectual property, and project bank accounts to reduce the risk of non-payment to the supply chain.

Intellectual property was highlighted as a challenge for SMEs, with clients increasingly seeking to control it – thus removing an incentive to innovate. Small businesses also highlighted their concerns around risk, and terms and conditions being passed down from main contractors.

Management of risk sharing was acknowledged as a key challenge by contractor Sir Robert McAlpine, which employs a significant proportion of SMEs as part of its supply chain. Enhancing collaboration with SMEs is a priority for the company, which is signed up to the prompt payment code – easing cash flow concerns for its suppliers and promoting SME growth.

Another way to promote SME growth could be through the development of regional construction hubs. This is something being considered as part of plans for Heathrow's expansion, which is seeking to move construction offsite in a thoughtful way. By creating logistics hubs across the UK, the airport would attract a more diverse supply chain and get closer to the SME community.

Getting closer to SMEs has been a natural side effect at Rolls-Royce plc as it has moved from being a manufacturer of 80% of its components and outsourcing just 20% of manufacturing, to the opposite proportion over the past 15 years. The firm is therefore reliant on the effectiveness and performance of its supply chain. Creation of its Trent XWB engine for example requires over 200 suppliers.

#### CASE STUDY: SHARING IN GROWTH

Rolls-Royce is a supporter of the government-backed **Sharing In Growth** (SIG) programme, which aims to raise the capability and competitiveness of SMEs in the UK aerospace sector. As well as financial investment Rolls-Royce has provided its manufacturing and engineering expertise to help firms grow.

One such organisation is the Winbro Group, which supplies cooling technology to the Rolls-Royce turbine business. Through deep collaboration Rolls-Royce has helped its supplier to make an overall equipment effectiveness saving of 60%, reduce its inventory of spares and critical parts by £0.5m, reduce machine build costs by 13%, increase headcount by 37 and increase turnover. These are major strides towards achieving the company's ambitious targets of growing from 195 people to over 300 and taking turnover from £23m to over £50m by 2021.

#### FUTURE MODELS

Responding to the market complexity is leading to some new ways of working for SMEs in major projects, including increased collaborations between SMEs themselves. The Nichols Group explained that working

in high-performing teams with other SMEs could be the right fit for clients. This can deliver the benefits of agility, innovation and technical excellence that SMEs are known for, while also giving some of the benefits of scale that may be necessary from a risk perspective.

The use of consultancy frameworks that incorporate large firms and SMEs was also highlighted as a way forward. Client organisations acknowledged that these had to learn from historic arrangements, where frameworks became too large and SMEs therefore failed to win work even after being awarded a place on the team.

*'SLC Rail is now working with AECOM in a joint venture where we, with 34 staff and 50 associates, are now working with one of the biggest consultants in the world and that is very much a model for me, where a small organisation can set the agenda for government and private sector clients and a big organisation can really provide the volume of skill and expertise to help that agenda be delivered.'*

Ian Baxter, Development Director, SLC Rail

Although SMEs are adapting to today's market conditions the event highlighted that there remain significant challenges to be overcome if government is to reach its 33% target and SMEs are to thrive in the major projects environment. Unrealistic tendering requirements, unsustainable risk transfer and onerous terms and conditions passed down through supply chains are all areas that clients should focus on in order to reap the multitude of benefits that SMEs can bring to major projects.

#### POINTS FOR FURTHER DISCUSSION

- How can industry work together to create a more sustainable model for risk transfer to SMEs on major projects?
- Should major project clients be seeking to engage directly with SMEs?
- What is the optimum solution for control of intellectual property?
- How will increasing digitisation and a move away from transactional arrangements affect SMEs?

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With grateful thanks to Andy Garbutt at [Berkshire Consultancy Ltd](#) for his significant contribution to this event.

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