

BE A BID WIZARD

While winning a contract can be an exhilarating experience for SMEs, failing to assess its impact on business can pose many problems. Paul Golden looks into what SMEs can do to prepare for bidding

In its recent research, Hitachi Capital Invoice Finance (HCIF) found that nearly half of small businesses (47.5%) turned down contracts because they could not deliver the work. For early stage companies, the figure rose to 70%.

The most common reasons given for rejection included contracts not paying enough, lack of management time and unreasonable contract demands.

Early stage companies were likely to reject a contract based on price. However, the influence of finance teams on accepting or rejecting a contract is reflected in the finding that half of businesses surveyed turned down a contract solely due to payment terms.

Though it may be very exciting for those involved, winning a contract that dwarfs the existing turnover of a business creates a number of risks; the main risk factor being the ability to finance the contract. Large contracts might absorb a significant amount of time and money to deliver as customers are rarely prepared to make interim payments.

More small businesses have gone bust as a consequence of securing

large contracts than losing them. This is the stark assessment of Tim Colman, the national procurement spokesman for the Federation of Small Businesses, and owner of Timecheck Consulting, a procurement consultancy.

Twenty years ago, a small business would almost without exception be able to access bank funding to cover the increased costs of servicing a large standard contract. Now, the available terms have become so onerous that in some cases they negate the profit margin on a big deal, he says.

FOUNDATION TO SUCCESS

More than one third of the SMEs (and 85% of early-stage companies) surveyed for the HCIF report had turned a contract down due to a lack of finance. While unwillingness to take on a loan was the most common factor, more than a quarter of respondents referred to lack of support from traditional lenders.

Small business owners may also face difficulties finding information on potential contracts. While public sector organisations are subject to procurement regulations, there are few limitations on private sector companies. There is no

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47.5%

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clearly defined mechanism for advertising opportunities – a situation that Colman refers to as being the biggest single obstacle to SMEs winning large contracts.

His recommendation for addressing this issue is to make the most of meet the buyer events, such as the business engagement events being staged around the country relating to the expansion of Heathrow Airport. Other options include checking adverts in the relevant trade publications.

Getting ready to bid involves first making sure that the business has all the necessary policies in place. According to Colman, a surprising number of SMEs lack policies in areas such as whistleblowing procedures, despite this being a legal requirement.

The next step is that businesses need to make sure the books are in order. If a business has been losing money for a period of time, a company is unlikely to trust its ability to service a large contract. The large company will likely want to know how the additional requirements generated by the contract will be financed, especially if a bulk of the payment is due at the end of the contract period rather than in stages. In addition to this, Colman also warns

against being distracted from servicing the needs of existing clients.

Whether the small business has a finance team, a finance director or just a company accountant, they will play a vital role in determining whether the contract is viable. In some situations the unit cost of production may increase for larger contracts, while the business may also have to implement additional quality standards or move to new premises.

"One of my companies builds racing cars," explains Colman. "We acquired a manufacturer with a good design that was producing five cars a year and ramped production up to 40 a year." However, the business that welded the chassis together could not increase its output eightfold, so the price of each chassis doubled.

"This may sound like an extreme example, but you would be surprised how many small businesses do not know what their production costs are and the severity of the consequences of getting it wrong rise in line with the value of the contract," he adds.

WORK YOUR WAY UP

Clive Lewis, head of enterprise at ICAEW, suggests that small enterprises work their way up to pitching for large contracts by working with a business that supplies a large company, making the latter indirectly aware of their capabilities and increasing their credibility. "Large businesses talk to their suppliers and word gets around," he says. "The supply chain is an effective means of getting in front of potential customers."

Lewis acknowledges large companies can be unreliable payers and will often demand volume discounts, making a strong finance department vital. Large customers usually want to look at a small supplier's balance sheet to see whether the small business can support the length of credit they will be looking for.

He recommends small companies verify that their prospective customer is adherent to the Prompt Payment Code administered by the Chartered Institute of Credit Management. Signatories to the code commit to paying suppliers within a maximum of 60 days (in line with late payment legislation requirements), working towards adopting 30 days as the norm and to avoid any practices that adversely affect the supply chain. If this is not the case, the small business should seek a prompt payment commitment during the contract negotiations. At this stage it is

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also important to ascertain the escalation process in the event that a debt remains unpaid beyond the credit terms.

This can be a challenging conversation but it is a vital function of the finance team. Ann-Marie Cameron, finance director of packaging solutions provider Qualvis, recommends checking the credit rating of the company issuing the tender. "Taking on a customer with financial problems is a major risk for an SME," she says. "Information on the financial health of the business will also be helpful during the negotiation process."

Lewis refers to the reluctance among many small businesses to raise external finance, which may limit their ability to secure large contracts. "Trading only within working capital can act as a brake on growth ambitions," he adds.

TAP INTO THE RESOURCES

Fortunately, assistance is available. For example, UK Export Finance supported Mechatherm International by providing a guarantee under its bond support scheme to free up the company's working capital to fulfil a major contract received earlier this year.

In May 2017, Mechatherm secured a multi-million-pound order to supply one of the largest aluminium producers in the world with melting and holding



furnaces. As a result, 10 new jobs were created that expanded the company workforce to 60.

Chairman Andrew Riley has worked in the business founded by his father for the past 35 years. He still recalls the first large contract that involved him - Egypt's state aluminium company Egyptalum. It was a priority to get cash flow right. Riley adds: "If you have a number of large contracts and get the payment scheduling wrong, you will go out of business. The financial support of UK Export Finance was vital to securing the latest contract."

Businesses already facing difficulties finding people with the right skills have to be particularly conscious of resourcing issues that will arise. "Sometimes you have to take a bit of a punt," says Riley. "The aluminium industry has been through a severe downturn, but we took the decision to retain all our key staff and we work with contractors to smooth out peaks in demand without having to recruit and then release large numbers of permanent employees."

Unsurprisingly, given the international profile of Mechatherm's customer base, Riley is an advocate of currency risk management as well as careful resource planning. "Currency fluctuations can wipe out your profit margin (and worse)



85%

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overnight, so you need a robust hedging policy and the finance director's primary responsibility is to ensure this is updated regularly," he adds. "Fortunately, hedging options have become more accessible and affordable."

KEEP THE BANK INFORMED

Riley also recommends discussing the implications of large contracts with your bank. He explains: "We hold a detailed financial briefing with our bank at least once every six months and in our experience, banks are more willing to cut you some slack if they know what you are doing. In some cases customers will demand letters of credit, which again needs to be planned for in advance."

He is confident that there is sufficient encouragement and assistance provided to small businesses bidding for large private sector contracts. "Networking is crucial - I recently attended a breakfast briefing organised by the Engineering Employers' Federation where I learned

about the tariffs our goods might face after Brexit and what shipping documentation might be required. Too many businesses fail to take advantage of the resources available to them."

OPPORTUNITY OR MILLSTONE?

In some cases, finding a niche can open doors for a small business. Healthcare company MedTate has won contracts for its supplements with Lloyds Pharmacy in Selfridges and John Bell & Croyden. CEO Pete Tate reckons the novelty factor gave his company a decisive edge in winning these contracts.

Manufacturing sustainability has been a challenge, though. "Herbal products are more complex to manufacture since good quality herbs are very limited in their natural occurrences so we have to be extremely vigilant when procuring the ingredients, while also constantly finding new suppliers," he says.

Sometimes, contracts become available due to the terms being so bad that others have already rejected them. Robert Pick, finance director at RH Commercial Vehicles, has found this to be true. "In my experience, larger companies rarely change the terms of a contract after it has been signed, so if it looks too onerous and/or the profit margin is marginal, the small business should carefully consider whether it is an opportunity worth taking," he says.

If the contract passes these tests, the finance team should take the time to sit down with operational staff to work through the requirements and openly discuss how they will manage problems. If the contract requires additional staffing and resources, the company needs to consider whether these can realistically be put in place in time.

As payment terms on larger contracts are typically extended, pre-planning before cash begins to flow is critical.

According to Pick, maintaining a local personal relationship that you can turn to within the company awarding the contract is also very important.

Once a contract is running, there is a temptation to breathe a sigh of relief and move on to the next piece of business, he concludes. "However, I like to arrange ongoing reviews to allow ourselves and the customer time to review progress, identify any issues and look for resolution. By doing this, we also get an insight into any other opportunities and keep ourselves well placed when the contract comes up for renewal." ●

THE IMPORTANCE OF SOFT SKILLS

A dazzling proposal alone will not win a contract, but a poor one will scupper new business chances. The best proposals show an understanding of customer needs and the industry in question before explaining the proposed approach and why it was chosen.

When pitching for business, honesty is the best policy. Five years ago, SME travel management company Giles Travel won the Nike account in a process that pitched it against some of the world's largest travel management services providers. Chief commercial officer Andrew Perolls says one of the factors behind this success was that the company didn't pretend to be bigger than it was.

"We sold the benefits of being a small company and recognised that some customers want to be a big fish in a small pond," he says. "We pushed the fact that we are quick to do things and that customers get access to a senior person in the business."

Perolls reckons large companies are also reassured when they see that a small business has been recognised - during the tendering process they will often search for award-winning providers.

When it comes to the business pitch, Robert Pick of RH Commercial Vehicles advises a straightforward presentation as this will quite often be refreshing for a large business audience. "Stressing that if any problems should occur there will be people on hand who can react quickly will usually give you the edge over a larger business," he adds.