

SMEs won bulk of public tenders in H1 2014

SMEs need to be more proactive in managing balance sheets to tender for public projects: study

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SMALL and medium-sized enterprises (SMEs) in Singapore have been successful in securing public projects, with 79 per cent of the contracts awarded by all ministries having gone to SMEs rather than MNCs in the first half of 2014, a study by analytics firm VSC showed.

The study also found a high correlation between a company's financial strength and the level of success in winning public tenders. As a result, SMEs need to be "more proactive in managing their balance sheets" when it comes to public tenders, VSC said.

In the study, SMEs are defined as enterprises with an annual turnover of not more than S\$100 million. Only direct tenders were included, with data obtained directly from GeBIZ, the government's procurement website.

In collaboration with the NUS Business School, VSC evaluated data from 11 ministries and 16 industries, and shortlisted 50 companies which won public tenders for a more detailed analysis. In comparing the 50 companies to their publicly-listed peers in Singapore, the study found that successful tenderers generally had a similar if not slightly more superior financial profile than their listed peers. VSC hence encourages SMEs to participate more in public tenders as a way to beef up their balance sheets.

In the services sector, which includes printing, photography, cleaning and maintenance services, the total value of public tenders secured by both SMEs and non-SMEs was the highest at S\$50.28 million. The construction sector had the second highest value of S\$20.64 million.

The study also identified the obstacles faced by enterprises in securing tenders, including disproportionate bidding costs and a lack of manpower to win higher-value contracts. Procurement officials also tend to be risk-averse in selecting suppliers and thus apply more stringent requirements for new bidders. SMEs also encounter slow payment by the procuring authorities and significant burdens in obtaining working capital.

To improve SMEs' chances of winning public tenders, VSC recommends them to identify their balance sheet strengths and weaknesses through self-assessment toolkits. Enterprises can also set up a mini procurement department to track, shortlist, submit and monitor tender submissions regularly, and adopt an internal system to monitor competitors and bidders for similar projects.

For the tender authorities, VSC recommends the use of indices to evaluate bidders and assess which ones give the highest public value outcome. They can also adopt an SME procurement index to measure the health of the companies bidding for the public tenders, the firm said.

The study also looked at how collaboration between SMEs and public agencies help in the development of SMEs in Singapore, Australia, the UK, and the US. SME development was measured by indicators including the annual revenue turnover of SMEs and the total number of SMEs.

Singapore had the strongest positive association between public projects and SME development, said M Nazri, chief executive of VSC. That means the securing of public projects by SMEs boosted SME development the most in Singapore, compared to the other countries.

Also, a higher proportion of companies that are well-managed or attain higher financial ratings tend to dominate public sector projects, even though the agencies did not set financial criteria upfront, Mr Nazri said.

Of late, there have also been several procurement lapses experienced by public agencies as reported by the Auditor-General's Office, he noted. "We expect tighter checks and controls to be exercised by the respective agencies," he said, adding that the report will hopefully provide insights and guidelines on how to evaluate and select the correct companies to achieve maximum public value.

VSC presented the study's findings at its SME Business Transformation event on Monday. At the event, the firm also launched its SMEASSIST Centre, which will help SMEs improve their internal operational processes. The centre will also chart business directions for SMEs in overseas markets, and structure investments and financing strategies for SMEs.