



Social Enterprise Lancashire Network

PROCUREMENT READY

TOOLKIT



**Lancashire County
Developments Ltd.**

Aim of Toolkit

SELNET has commissioned this set of useful documents to assist social enterprises improve their knowledge and understanding of applying for tenders and contracts.

For Lancashire organizations the 3rd Sector Procurement Officer, Gareth White, is available to discuss trading activities and ways to improve their contracts with both the public and commercial sectors. This is initially a free service and more details are available at www.selnetprocurement-UK.com



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Procurement Toolkit



"Blackburn with Darwen Borough Council supports the process of auditing suppliers' readiness to tender for public sector contracts. The tender process can be lengthy and time consuming for suppliers and this process will help them to be sure that their tender bids are submitted in a way that gives them the best opportunity for success in winning contracts".

Sylvia Richardson, Head of Procurement, Blackburn with Darwen Borough Council

"Blackpool Council, like many council's in the north west, actively encourages SME's, Social enterprises and Third Sector contractors and service providers to register their interest in bidding for the Council's business. However, smaller businesses are often reluctant to make the initial approach or may decide not to submit a bid when presented with an invitation to tender and formal procurement processes which appear complicated, costly and burdensome. I support this initiative which is designed to help potential suppliers to understand the procurement process thereby being better equipped to successfully bid for council business".



Mike Kirkham Head of Procurement, Blackpool Council



" Any document that enables businesses to understand and should they then wish, apply for council work and contracts can only be beneficial to all concerned with the increased opportunity to retain spend within the region whilst hopefully ensuring best value"

Harry Nuttall, Procurement Officer, Pendle Borough Council

"This process is useful because it makes the tender process less mysterious. Additionally it helps potential suppliers to make an informed decision as to whether to submit a tender, explaining the sort of information they need to have available and the pros and cons of supplying to public sector".



Anne Burton, Procurement Manager at East Lancs e-Partnership, Pendle Borough Council



"I think this is a very useful aid to social enterprises wishing to trade with the public sector. It sets out the key messages clearly and its availability should encourage the 3rd sector to bid for public sector contracts with a confidence that has been perhaps lacking in the past".

James Douglas, Assistant Head of Office Support Services, Chorley Borough Council

"The Audit Kit you have formatted is an informative and useful guide to assist 3rd sector bodies in relation to the tender process and/or dealing with Public Sector contracts for goods and services. The information contained in the toolkit allows the 3rd sector to better understand the relevant processes and procedures related to 'doing Business with the Council', therefore improving their knowledge and potential successful participation in tendering for contracts".



Kim Larter, Procurement Officer, Burnley Borough Council



"Third sector organisations represent an important resource to Lancashire, so I support the work being done to develop and enable this sector. This toolkit provides clear and valuable guidance about public sector procurement, and is a helpful source of reference for third sector organisations wishing to work with us".

Ingrid Pinn, Procurement Manager (e-Procurement), Lancashire County Council

"Third sector organisations which want to maximise their funding streams need to consider selling their services, this will include tendering for local authority work. Understanding the market place in which those services can be sold and/or tendered is an essential requirement in this respect. This publication will help stimulate the thought processes of any third sector organisation which is considering embarking on this route."



John Ryding, Procurement and Projects Manager, West Lancashire District Council



"As a Procurement Manager in the public sector I am keen to encourage any process aimed at helping 3rd sector bodies compete for and win contracts within the Public Sector arena. The in-depth information contained within Selnets Tender Readiness Audit Kit will give those in the 3rd sector with little knowledge or understanding of tendering to the Public Sector a detailed insight into what is required and can not fail to help in their attempts to secure public sector contracts."

Andrew Dobson, Procurement Manager, Preston City Council

"South Ribble Borough Council seeks best value from all its suppliers. It recognises the role that social enterprises can play in delivering the Council's priorities and helping to deliver lasting social and environmental change. The Council already works successfully with a range of social enterprises and therefore welcomes applications from organisations in the sector when suitable opportunities arise."



Steve Hastwell, South Ribble Borough Council

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SELNET Tender Readiness Audit Proposal

Learning Objectives

After this process you will:

- Be able to search for Public Sector contract opportunities;
- Understand procurement legislation and why it is in force;
- Be able to identify general pre qualification criteria
- Be able to bid for public sector contracts if you choose

Contents

Introduction

The Procurement Officer will ask questions around the following:

Section 1 – Where are you now?

Section 2 – Who are your current/prospective Public Sector customers?

Section 3 – How do you market your business?

Section 4 – Where do you search for opportunities?

Section 5 – Pre Qualification Criteria.

Introduction

This process aims to help 3rd Sector bodies to be able to tender for contracts with the Public Sector. It explains what legislation affects the Public Sector tendering requirements and looks at the procedures necessary to apply to tender for Public Sector work.

The Public Sector is the term used to describe national, regional and local public bodies, including central government, local authorities, fire and police authorities, defence, health services, joint consortia of public bodies, and public and private utilities that procure works, supplies and services from external sources.

The size of procurement budgets can vary from agency to agency but overall provide organisations with an extensive selection of commercial opportunities worth many millions of pounds. The perception maybe that these opportunities are normally only accessible by large, profit driven corporations, but in reality many contracts could be delivered equally well by 3rd Sector bodies.

With the size and value of procurement contracts offered, there is understandably a large level of competition between suppliers and therefore this process cannot assure individual 3rd Sector bodies of success. However, it should provide sufficient information to help you understand the requirements in tendering for public procurement contracts.

This process gives a general summary of the procurement process a Public Sector body is likely to adhere to, although variations may occur.

What are the benefits in contracting with the public sector?

- Usually long standing, stable customers

- Huge Public Sector spend
- Good payers & proper arrangements
- Keen to work with a broad range of suppliers
- Chance to get involved in exciting projects that you will not find elsewhere
- Subject to public procurement legislation
- You may also find that trading successfully with the public sector can give added credibility with private-sector customers

What are the possible pitfalls of dealing with the public sector?

- Can be a lengthy and expensive process to winning work
- Different formats and forms to private sector tenders
- Decision-making processes can take longer than in commercial organisations
- Pre qualifying criteria can be strict

Section 1 - Where are you now?

- Details of business at present (products/services)
- Funding streams (are they running out?)
- Current customers/contracts

Section 2 - Who are your current/prospective Public Sector customers?

- How do you monitor your current customers and their feedback?
- Do you know who your prospective customers are e.g. (environment department)?
- What does your prospective customer want e.g. (right product at right price)?
- Have you spoken to the people responsible for making decisions in that department e.g. (sold added value of your business)?

Section 3 – How do you market your business?

- What is your marketing strategy?
- How often do you contact current/prospective customers and by what means?
- Do you attend promotional events e.g. networking events?
- How do you monitor when you contact people (introduce database/spreadsheet)?

Section 4 – Where do you search for opportunities?

- Websites?
- Local/regional press?
- Specialist literature?

Section 5 – Pre Qualification Criteria.

Are you ready to deal with the Public Sector (Policies & Procedures/Pre Qualification Criteria)?

Do you have the following and evidence of them?

Are they detailed enough, applicable to your organisation, how often do you train staff on them (the Procurement Officer will evaluate).

- 3 years worth of audited accounts?
- Environmental policy?
- Health and Safety policy?
- Equality and Diversity policy?
- Investor in People Accreditation?
- References?
- Insurance Cover?
- Quality Accreditation?
- Public sector contracting history?

Principles Governing Public Sector Procurement

Each Public Sector body will adhere to a set of rules and procedures that govern how the organisation should purchase goods, services and works. These rules and procedures are based on the legal principals each body are duty bound to conform to under English and European law, as outlined below.

Best Value

The Public Sector must ensure that they obtain value for money when awarding contracts and have a duty to achieve best value. In addition to appraising suppliers on cost and quality, Best Value can take into consideration wider factors such as:

- Service review;
- Performance management;
- Innovation;
- Responsiveness;
- Flexibility;
- Specialism;
- Community consultation; and
- Delivery mechanism e.g. local partnerships.

European Law

Thresholds

The "traditional" directive only applies when the value of the contracts excluding VAT exceeds EU thresholds which are currently:

- €211,000 (approximately £144,371) for public supply and service contracts awarded by central government authorities;
- €211,000 (approximately £144,371) for public supply and service contracts awarded by Public Sector bodies which are not central government authorities; and
- €5,278,000 (approximately £3,611,319) in the case of public works contracts.

These amounts are subject to change and the EU compliance applies within 10% of the thresholds.

The Tendering Process

The tendering process has many stages. Outlined below are the ten steps that need to be taken for a contract to be awarded, which are described in further detail through the rest of this Section.

10 Steps to tendering are:

- i. The body will publish a Tender advert in an appropriate publication and post a copy in the OJEU, the advert will state what is required, contact details for further information and a closing date for interested suppliers;
- ii. Interested suppliers respond to the advert by sending a formal written expression of interest to the body by the closing date specified;
- iii. The body will issue all interested suppliers with a Pre-Qualification Questionnaire (PQQ) and
- iv. A copy of the tender specification (Optional);
- v. Suppliers complete and return the PQQ to the organisation by the required date (Optional);
- vi. The body reviews the PQQ and selects a preferred shortlist of potential suppliers;
- vii. Each supplier on the shortlist is issued with a set of Tender documents;
- viii. Each short listed supplier return completed tender documents before the deadline;
- ix. All completed tender submissions are evaluated by the body; and
- x. Body selects and then enters into discussion with the preferred supplier/s.

Pre Qualification Questionnaire

As outlined above in points (i) and (iii) the Pre Qualification Questionnaire (PQQ) is not a legal requirement of the tendering process but is commonly used by Public Sector to check that interested parties have the financial and technical capability to deliver the required supply, service or works.

Tender Documents

If a supplier reaches point (vii) in the tendering process they can expect to receive the following documents.

- Letter of invitation - this will advise the supplier when, how and where tenders should be submitted;
- Instructions to Tenderers - provides guidance for correctly completing the tender documents including the rules that govern the procurement;
- Form of Tender - an agreement to the terms and conditions of the tender by the supplier;
- Specification - details the requirements of the contract in terms of outputs, standards, performance and outcomes;
- Terms and Conditions of Contract - describes the legally binding terms on which a successful supplier will provide the required goods, service or works including method of payment;
- Tender Return Schedules - documents to be completed by the supplier detailing specific elements of the proposal such as price or rates;

- Tender Evaluation Criteria - provides an outline to how the awarding organisation will evaluate each tender and the basis on which it will select a supplier;
- Tender return details - the body will supply details of the contract reference number, date for return and to where the completed tender documentation should be despatched (some organisations may provide a pre printed envelope or address labels for this use).

Contract Award

The Public Sector body will usually evaluate the tender bids on the basis of the 'Most Economically Advantageous Tender', sometimes known as 'MEAT', which takes account of price, quality and whole life costing. You should note that the Agency is not bound to accept the lowest or any of the bids submitted. After evaluating the bids, if the body is satisfied that you can undertake the work, supply or service you will be awarded the contract.

If you are not awarded the contract you will be notified in writing that you have been unsuccessful, and are given feedback.

How to apply for inclusion in the approved list of contractors

If your company would like to be considered for a particular contract you must follow the application instructions detailed in the advertisement.

The 'restricted or open' procedures, as follows, are generally used:

The Restricted Procedure

You will be asked in the advertisement to write, e-mail or fax the directorate concerned to express your interest and request the project-related business questionnaire. You must complete the questionnaire and return it within the specified timescale to be considered. Your business questionnaire will be assessed on the same basis as the Approved List application, but may also cover more specific project related issues. Once all the returned business questionnaires have been evaluated, a shortlist of tenderers is compiled - tender documents are sent to the companies on the shortlist, and a letter is sent giving feedback to firms not successful in getting onto the shortlist.

The Open Procedure

On some occasions the Agency uses an open tendering procedure, which means that any interested company can tender for the contract. You will still be asked in the advertisement to express your interest for the contract, but you will automatically be invited to submit a tender. The information from you and your referees will then be considered together with your tender bid and supporting documentation at the same time.

On occasion the Negotiated or Competitive Dialogue procedure is used.

The Negotiated Procedure

There are two types of Negotiated Procedure: with the publication of a notice, and without the publication of a notice. There are strict rules concerning the use of the Negotiated Procedure and very few contracts qualify. One of the rules is that it may be used "when, for reasons of extreme urgency brought about by unforeseeable events, the time limits for the Restricted or Open Procedures cannot be met".

Only chosen suppliers are invited to negotiate contracts.

Competitive Dialogue Procedure

Available for complex procurements where the contracting body does not consider that the open or restricted procedures will allow the award of the contract. The procedure will allow the contracting body to enter into dialogue with bidders before seeking final tenders from them. It is expected that this procedure is appropriate for many cases where hitherto the negotiated procedure had been used.

Contract performance

There are procedures in place for monitoring the performance of all companies carrying out contracts for the Public Sector. All companies are monitored to assess their compliance with pre-defined performance criteria. Once awarded a contract, you must pay particular attention to the following:

Onsite Monitoring

Your company must be capable of delivering the requirements of the contract. You should be aware that Contract Conditions will be strictly applied especially with regard to quality and general performance. The Agency is continuously striving to improve its own performance and it expects its contractors to do the same. By the same token, the Agency will look seriously at the position of any contractor that fails to perform to the levels required.

You will be asked to comment on any adverse performance that is reported, but you should be aware that serious instances of poor performance could lead to your suspension or deletion from all approved or select lists. The Agency is not responsible for the consequences this may have on a company's business. Examples of adverse performance would include such areas as: poor quality of work, poor site supervision, poor adherence to work programme, poor control of sub-contractors, or poor health and safety practices.

Variations

These may be needed from time to time throughout the contract. The Public Sector body will always request variations in writing, except in an emergency where instructions may be made verbally but will be confirmed in writing.

Post Contract Evaluation

General performance of a contract is monitored and recorded for future reference. These records, known as contractor performance reports, are completed by the project's supervising officer and are kept by the client directorate.

Tender for a contract

Introduction

Submitting a tender is common for businesses supplying goods or services to other businesses or the public sector.

At a basic level you expect to quote for a job or write a letter saying why you should be given the business.

But more formal tenders often apply to bigger jobs or for supply contracts spread over time. Public-sector work in particular has specific tendering processes. This applies to customers ranging from your local council or hospital to a government department.

Even if you don't win the work this time, writing a tender can clarify your aims, strengths and weaknesses and you can learn for next time by asking for feedback on your bid. It raises your profile with the customer and helps you learn about customers' needs.

This guide explains how to identify potential contracts, what to include in your tender and how to write it for the best chance of success.

Finding out about contracts

You can find out about private-sector contracts through:

- building contacts with potential customers
- advertisements in local and national newspapers
- advertisements in trade and professional magazines covering your area of business
- researching contracts outside your business sector which may produce secondary contracts for you, eg if a new office block is built, it will need desks, carpets, signage, stationery, cleaning and laundry
- following up press and other reports - a company may be expanding or sub-contracting part of a big order
- networking and picking up information from other businesses

You can identify public-sector contracts by:

- following up contract notices published in newspapers and trade magazines
- monitoring online government tender notices - find further information about government contracts on the www.supply2.gov.uk website (registration required) or www.thechest.nwce.gov.uk - The Chest has been created with funding from the North West Centre of Excellence to bring together buyers and suppliers making it easier for businesses to find out about new sources of potential revenue and to grow and develop to the benefit of the local economy.

Local Authorities in the North West currently spend between £6bn and £6.5bn each year on goods and services so they could provide long-term stability for local businesses. Suppliers can register online via the Suppliers' Area to receive email updates on opportunities that match their capabilities.

Suppliers can reduce tendering costs by registering their interest in opportunities online.

- searching for free for lower value government tender notices online - full details of all English region low-value tenders can be accessed for £99 per annum

- searching free for "above threshold" contracts (with a value that exceeds the threshold above which an invitation to tender must be published throughout the EU) - you can perform the search on the Tenders Electronic Daily website

Should you bid for a tender?

Preparing tenders can help you to win big orders, but it can also be time-consuming, cost money and tie up valuable resources. If you don't get the contract, the money and time spent is usually lost, so you need to weigh up whether or not a tender is worth bidding for.

Key points to consider:

- Get hold of the bid documents and analyse them.
- Make sure you can match the technical, skill and experience requirements.
- How much will it cost to prepare your bid?
- Would the work fit in with your strategy and positioning of your business?
- Estimate the costs of fulfilling the contract and whether or not you'd make enough money to justify it.
- Assess how the contract would affect your other work, staffing and ability to take on other new business.

You also need to consider how important the customer is to your business. Is this a good potential client or one you don't want to offend by not tendering? Try to understand things from the client's point of view.

Find out what the client wants

Many potential clients will talk things through on an informal basis before you decide to bid. Ask for a face to face meeting or a telephone chat. You should always raise questions by phone or email if tender documents are unclear - on anything from deadlines to how you'd get paid.

Make sure the client is serious, and that you're not there to make up the numbers or to test the market. Sometimes customers may just be fishing for ideas they'll then use for themselves. But don't forget many clients genuinely want you to make a creative contribution and provide ideas.

More information on preparing tenders can be found in the guide to tendering for government contracts, available from the Department of Trade and Industry Publications Unit.

What to put in your tender

Once you've decided to bid, you'll need to decide how you'll manage the bid:

- Who gathers information and does research?
- Who co-ordinates all the material you need?
- Who writes the drafts?
- Who checks them?
- How will the rest of your firm's work get done?

Crucial rules for your tender document

- Focus on the client - talk about their needs and how you can solve their problems. When you write about yourself, it's to prove you have the skills, experience and organisation to fulfil the client's requirements.
- Help the client by coming up with ideas - from alternative ways of doing things to how to tackle possible worries about future maintenance and staffing implications.
- If the client has provided a qualification document, make sure that you cover everything in the document.
- Value for money and not price alone decides most bids. Bring something to the work that can't be done by the client. Emphasise business benefits, service improvements, risk reduction, low maintenance, quality, reliability, previous satisfied customers, lifetime costs etc.
- Analyse all the cost and pricing factors of the contract. Don't ignore fixed costs such as wages for staff who could be working on something else.
- Consider whether to include some protection of your information from future disclosure under the Freedom of Information Act. You may wish to indicate which information you consider to be a "trade secret" or is likely to prejudice your commercial interests if disclosed. You could also include a non-disclosure agreement.
- Contract management - show you have the resources to do the work in a cost-effective way to meet the client's needs, hit deadlines and respond flexibly to changing situations.
- Show you've thought about - and can manage - potential financial, commercial and legal risks that could cause contract failure.
- Give details of your team. Emphasise strengths - CVs should highlight successes with similar projects as well as qualifications and experience.

Writing your tender

Make sure you match the bid specification and answer all questions.

Summarise your bid and explain why it answers the client's needs. Write this last but put it at the beginning of your tender.

Clients will also expect you to:

- state the purpose and origin of the bid
- summarise your work as a contractor, past experience and credentials for this job
- say how you'll carry out the work, and how and when the client's aims will be achieved
- explain the benefits and value for money of your bid
- detail when and how goods and services are to be delivered, and provide a timetable
- demonstrate your team's skills, experience of similar work and their responsibilities if you win the contract
- explain how you will manage the project
- give details of your pricing and any aftercare arrangements within the price
- be practical and identify potential problems without promising what's clearly impossible for you to deliver

Include a covering letter that responds to the bid invitation, summarises your main message and explains how the documents are organised.

You should also be aware that information from your tender may be disclosed in the future under the Freedom of Information Act. This gives anyone, including your competitors, the general right to see information held by public authorities - including the information in your tender.

Therefore you should clearly indicate which information is commercially confidential. If the information is particularly sensitive, you might want to ask for a non-disclosure agreement.

Tips on editing your tender

It is well worth spending some time looking at the presentation of your tender. Here are some tips on editing your tender:

- Keep sentences and paragraphs short, punchy and businesslike.
- Use bullet points and headings to break up text.
- Decide on a typeface, layout and type size - not too small - and stick to them.
- Make sure everything is standardised. Are CVs all presented in the same way?
- Be careful when cutting and pasting copy to make sure the format stays the same.
- Make sure you've developed a logical argument and that everything hangs together.
- Read everything again. Then get a colleague to read it - for meaning, typing mistakes and omissions.
- Use appendices for supporting additional information.
- Have a front cover with project title, date, name of the organisation requesting the tender, and that of your own firm.
- Include a contents page.
- Number paragraphs so material can be easily located.
- Consider getting it bound at a print shop.

Here's how I select and bid for tenders (Case Study)

The JJ Group is a full service marketing and new media agency based in Oxford. Established in 1989, the company's current clients include Volvo, British Gas and the Department for Work and Pensions. Marketing manager Phoebe Hart explains how a structured approach to tendering helps the company win new business.

What I did

Have a plan

"Two years ago we set up a dedicated team to co-ordinate tenders as part of our growth strategy. We began by reviewing recent contracts, analysing revenue versus costs. We also identified which market sectors and company types we wanted to target. It's important to be specific so you don't waste resources chasing tenders that don't fit overall business objectives.

"There are lots of ways to find out about contracts. As well as being members of relevant professional bodies, we monitor the trade press, attend networking events and use an online tool for tracking public sector contracts."

Allocate responsibilities

"At the outset of a tender we pick a team to work on it, balancing skills required against existing workloads. We always allocate the people who will actually work on the business if we win it, and we include their CVs in the tender document.

"We hold meetings at key stages and map critical paths so everyone knows what they have to produce and when. When several people are contributing to a document, it's also important to give one person responsibility for the final edit, or you can end up with disparate styles."

Prepare the pitch

"Our golden rule is to focus on what the client is asking for. Sometimes that's clear from their brief, but you can't afford to guess or get too carried away with your own ideas. If we have queries, we contact the client, which also helps to build a rapport before the tender document is submitted.

"Most tender briefs come with a budget to work to. We regularly benchmark ourselves against similar-sized agencies so we know our pricing is competitive.

"Tender documents will be read by several people within an organisation, each with a different perspective. We structure ours so that they're easy to read and the client can quickly reference the part they're interested in.

"If a presentation is required, we adapt and add to the original document, so we're not just re-hashing what the client has already read."

What I'd do differently

Be selective

"In the early stages, the scatter-gun approach prevailed and we wasted time and money tendering for contracts we shouldn't have considered. Nowadays we're more selective."

Understand the public sector

"When we first started bidding for public sector contracts, we didn't realise the difference in processes and timescales compared to the private sector. We now understand the level of detail required and the time we need to allocate."

Sell the benefits, not the features

Introduction

Businesses and consumers don't buy on price alone. Your customers want to know what your product or service can do for them, not just how it works.

They want value for money and they may be prepared to pay more for your product if they gain significant benefits or advantages.

This guide explains how to sell the benefits of your product or service in order to maximise your sales.

How to analyse your product's benefits

The key to selling the benefits of your product or service is to look at them through the eyes of the person you are selling to. The more you know about your customers' needs, the easier this will be.

Step back

For example, you may be fascinated by the specifications of the PC printers you sell and their 1200 dpi print quality. But the benefits you'd want to emphasise to the customer are professional-looking documents and the ability to produce marketing material in-house instead of going to the local print shop.

Match the needs of the individual customer to what your product or service can offer.

Another example - if you're running a same-day stationery supplies service for other businesses, what you are really selling are the benefits of:

- uninterrupted workflow
- general business efficiency
- increased office space, as storage for paper, staples and toner cartridges is no longer needed

Softer issues

You may need to look at softer, more emotional issues when identifying the benefits of a personal consumer product.

For example, a mobile phone may have Internet access, but unless it looks cool it's unlikely to appeal to the teenage market.

And some businesses may incorporate softer issues into buying decisions. For example, if you're running a graphic design agency you may pay over the odds for high-tech computers and stylish furniture because you want clients to know you have high design values.

Matching benefits to the customers' needs

Understanding and meeting customers' needs is the essence of marketing. Your marketing activities need to highlight the ways in which your product or service meets those needs. You need to match benefits to a customer's needs when you're:

- researching marketing literature for a target audience
- having conversations with customers
- preparing a sales proposal
- making a sales presentation

Find out what the customer wants and don't try to bend their wishes to suit your product or service. Ask questions to find out what they're hoping to achieve from the purchase. Encourage them to ask lots of questions too.

Ask more general questions about the customer you're dealing with - don't just talk about their needs in relation to their use of your product or service. The more you know about them the more likely they are to give you clues to unexpected benefits.

Do homework beforehand on the customer and their marketplace so you can ask informed questions and make them confident you have some understanding of their needs.

Use this information to analyse your product and identify what factors are most likely to make the customer buy.

It helps if you can quantify any benefits in money or time terms, especially where the advantages of a particular product or service outweigh the costs. Let your customer know if buying your product now will help them make cost savings or boost their own turnover.

And remember that businesses in particular can feel more confident about buying if you can show how other businesses have benefited from what you're selling.

Price your product or service

Introduction

The price you charge for your product or service is one of the most important business decisions you make. Setting a price that is too high or too low will - at best - limit your business growth. At worst, it could cause serious problems for your sales and cashflow.

If you're starting a business, carefully consider your pricing strategy before you start. Established businesses can improve their profitability through regular pricing reviews.

When setting your prices you must make sure that the price and sales levels you set will allow your business to be profitable. You must also take note of where your product or service stands when compared with your competition.

This guide shows you how to build a pricing strategy and how to work out your costs and pricing to make sure your business is profitable. It also looks at different pricing tactics and changing your prices.

The difference between cost and value

Knowing the difference between cost and value can increase profitability:

- the cost of your product or service is the amount you spend to produce it.
- the price is your financial reward for providing the product or service.
- the value is what your customer believes the product or service is worth to them.

For example, the cost for a plumber to fix a burst pipe at a customer's home may be £5 for travel, materials costing £2.50 and an hour's labour at £10. However, the value of the service to the customer - who may have water leaking all over their house - is far greater than the £17.50 cost, so the plumber may decide to charge a total of £50.

Your pricing should be in line with the value of the benefits that your business provides for its customers, while also bearing in mind the prices your competitors charge. To maximise your profitability, find out:

- what benefits your customers gain from using your product or service
- the criteria your customers use for buying decisions - for example, speed of delivery, convenience or reliability
- what value your customers place on receiving the benefits you provide

Wherever possible, set prices that reflect the value you provide - not just the cost.

Covering fixed and variable costs

Every business needs to cover its costs in order to make a profit. Working out your costs accurately is an essential part of working out your pricing.

Divide your costs under two headings:

- fixed costs are those that are always there, regardless of how much or how little you sell, for example rent, salaries and business rates
- variable costs are those that rise as your sales increase, such as additional raw materials, extra labour and transport

When you set a price, it must be higher than the variable cost of producing your product or service. Each sale will then make a contribution towards covering your fixed costs - and making profits.

For example, a car dealership has variable costs of £9,000 per car sold and total fixed costs of £200,000 a year that must be covered. If the company sells 80 cars each year, it needs a contribution towards the fixed costs of at least £2,500 per car (£200,000 divided by 80) to avoid making a loss.

Using this structure, you can assess the consequences of setting different price levels:

- if the car dealership sells cars at less than £9,000 (the variable cost per car), it makes a loss on each car it sells and does not cover any of its fixed costs
- selling 80 cars at £9,000 means a loss of £200,000 per year as none of the fixed costs are covered
- selling cars at £11,500 results in breaking even, assuming the target 80 cars are sold (80 contributions of £2,500 per car = £200,000, ie the fixed costs)
- selling cars at £12,000 results in a profit, assuming 80 cars are sold (80 contributions of £3,000 = £240,000, ie £40,000 over the fixed costs)
- if more or fewer than 80 cars are sold, profits are correspondingly higher or lower

Cost-plus versus value-based pricing

There are two basic methods of pricing your products and services: cost-plus and value-based pricing. The best choice depends on your type of business, what influences your customers to buy and the nature of your competition.

Cost-plus pricing

This takes the cost of producing your product or service and adds an amount that you need to make a profit. This is usually expressed as a percentage of the cost.

It is generally more suited to businesses that deal with large volumes or which operate in markets dominated by competition on price.

But cost-plus pricing ignores your image and market positioning. And hidden costs are easily forgotten, so your true profit per sale is often lower than you realise.

Value-based pricing

This focuses on the price you believe customers are willing to pay, based on the benefits your business offers them.

Value-based pricing depends on the strength of the benefits you can prove you offer to customers

If you have clearly-defined benefits that give you an advantage over your competitors, you can charge according to the value you offer customers. While this approach can prove very profitable, it can alienate potential customers who are driven only by price and can also draw in new competitors.

How to build a pricing strategy

You need to decide whether to use cost-plus or value-based pricing.

It's important to find out what your competitors offer and what they charge. If you phone your rivals and ask them for a quote, you can use this information as a framework.

It's probably unwise to set your prices too much higher or lower without a good reason. If you price too low, you will just be throwing away profit. If you price too high, you will lose customers, unless you can offer them something they can't get elsewhere.

The perception of your product or service is also important. In many markets, a high price contributes to the perception of your product as being of premium value. This

might encourage customers to buy from you - or it might deter price-conscious customers.

It can be useful to charge different prices to different customers, eg to customers who purchase repeatedly, or buy add-on or related products, as a thank you for their loyalty. Bear in mind that customers who are expensive to satisfy will be less profitable, unless you charge them higher prices. One-off sales may cost you more than repeat business.

You can also use pricing tactics to attract customers.

Whatever prices you set, check that they cover your costs and can deliver a profit.

Different pricing tactics

Different tactics can help you attract more customers and maximise profits.

Discounting

Offering specially-reduced prices can be a powerful tool. This could be a clearance discount to sell old stock, or you could offer bulk discounts to encourage larger orders. You should be able to make these more profitable through lower costs.

But be careful. If you discount too much, customers may question your full-rate pricing or see you as a cheap option, making it difficult to charge full-rate prices in the future.

Odd value pricing

Using the retailer's tactic of selling products for £9.99 instead of £10 can be useful if price is an essential part of customers' buying decisions. Some customers perceive odd value prices like this as being more attractive.

Loss leader

This involves selling a product at a low or even loss-making price. Although you may not make a profit selling this product, you could attract customers who will also buy other, more profitable products.

Skimming

If you have a unique product or service, you can sell it at a high price. This is known as skimming - but you need to be sure that what you are selling is unique. Otherwise you may just price yourself out of the market if there is credible competition.

Penetration

This is the opposite of skimming - starting at a low price and gaining market share before competitors catch up with you. Once you have a loyal customer base, you should be able to find ways to raise prices later.

Raising or lowering prices

There will be times when you need to change your prices. But before you do, you should analyse the impact on your profitability of any proposed price change.

There are two key questions you will need to answer:

- What effect will the price change have on the volume of sales?
- What will the effect be on the profit per sale?

Increasing prices

Increasing prices can improve your profitability even though your sales volume may drop.

If you are increasing your prices, always explain to your customers why you are doing it. You can use the price change as an opportunity to re-emphasise the benefits you offer.

A good explanation can also strengthen your relationship with a customer.

There are also ways that you can hide price increases. For example, you might:

- introduce new, higher-priced products or services and make older, cheaper ones obsolete
- lower the specification - and your costs - while maintaining the same price

But be aware that hiding price increases can risk adverse reactions from customers if they realise what you are doing.

Reducing prices

You should never take the decision to lower prices lightly. Low prices often go hand-in-hand with poor-quality service - is this the image you want to create for your business?

Concentrate on building profits rather than cutting prices to build up sales. In most circumstances, your customers decide to buy from you because of the benefits you offer, along with your price. It is rare for the decision to be made on price alone.

Know your customers' needs

Introduction

However good your product or service is, the simple truth is that no-one will buy it if they don't want it or believe they don't need it. And you won't persuade anyone that they want or need to buy what you're offering unless you clearly understand what it is your customers really want.

Knowing and understanding customer needs is at the centre of every successful business, whether it sells directly to individuals or other businesses. Once you have this knowledge, you can use it to persuade potential and existing customers that buying from you is in their best interests.

This guide tells you what you need to know about your customers, how to use this information to sell to them more effectively, and how to win business from your competitors.

Why do your customers need you?

Every business needs a reason for their customers to buy from them and not their competitors. This is called a Unique Sales Proposition (USP). Your USP can be identified by completing the phrase "Customers will buy from me because my business is the only..."

Your USP can change as your business or your market changes, and you can have different USPs for different types of customer.

For example:

- a stationery shop could offer a free same-day delivery service for its business customers within a local area - an effective USP for businesses that need fast delivery
- the same stationery shop could offer a 5 per cent discount to businesses that spend more than £500 a month - this would be a USP for cost-conscious customers
- the stationery shop could also make sure it offers the most comprehensive stock of artists' materials in the area - a USP for local professional or amateur artists

All of these USPs can be effective because they are driven by what the customer looks for when making a buying decision.

It's a good idea to review your USPs regularly. Can you tailor your products or services to better match your customers' needs? Consider asking your customers why they buy from you. This will tell you what they think your USP is - this may differ from what you think your USP is.

It's also useful to check constantly what your competition is doing. Remember - if your competitors are doing the same, your USP isn't unique any more.

What do you know about your customers?

The more you know about your customers, the more effective your sales and marketing efforts will be. It's well worth making the effort to find out:

- who they are
- what they buy

- why they buy it

If you're selling to other businesses, you'll need to know which individuals are responsible for the decision to buy your product or service.

You can learn a great deal about your customers by talking to them. Asking them why they're buying or not buying, what they may want to buy in the future and asking what other needs they have can give a valuable picture of what's important to them.

Strong sales are driven by emphasising the benefits that your product or service brings to your customers. If you know the challenges that face them, it's much easier to offer them solutions.

It's also well worth keeping an eye on future developments in your customers' markets and lives. Knowing the trends that are going to influence your customers helps you to anticipate what they are going to need - and offer it to them as soon as they need it.

You can conduct your own market research and there are many existing reports that can help you build a picture of where your customers' markets - and your business - may be going.

The customer's current supplier

Chances are your potential customer is already buying something similar to your product or service from someone else. Before you can sell to a potential customer, you need to know:

- who the customer's current supplier is
- if the customer is happy with their current supplier
- if buying from you would offer the customer any benefits - and, if so, what those benefits would be

The easiest way to identify a potential customer's current supplier is often simply to ask them. Generally people are very happy to offer this information, as well as an indication of whether they're happy with their present arrangements.

If you can find out what benefits they're looking for, you stand a better chance of being able to sell to them. The benefits may be related to price or levels of service, for example. Are there any benefits your business can offer that are better than those the potential customer already receives? If there are, these should form the basis of any sales approach you make.

Ten things you need to know about your customers

1. Who they are

If you sell directly to individuals, find out your customers' gender, age, marital status and occupation. If you sell to other businesses, find out what size and kind of business they are. For example, small private company or big multinational.

2. What they do

If you sell directly to individuals, it's worth knowing their occupations and interests. If you sell to other businesses, it helps to have an understanding of what their business is trying to achieve.

3. Why they buy

If you know why customers buy a product or service, it's easier to match their needs to the benefits your business can offer.

4. When they buy
If you approach a customer just at the time they want to buy, you will massively increase your chances of success.
5. How they buy
For example, some people prefer to buy from a website, while others prefer a face-to-face meeting.
6. How much money they have
You'll be more successful if you can match what you're offering to what you know your customer can afford.
7. What makes them feel good about buying
If you know what makes them tick, you can serve them in the way they prefer.
8. What they expect of you
For example, if your customers expect reliable delivery and you don't disappoint them, you stand to gain repeat business.
9. What they think about you
If your customers enjoy dealing with you, they're likely to buy more. And you can only tackle problems that customers have if you know what they are.
10. What they think about your competitors
If you know how your customers view your competition, you stand a much better chance of staying ahead of your rivals.

NHS Procurement FAQ's

Q. Does the NHS have a policy specifically for social enterprises?

A. Any public sector body cannot positively discriminate or give preference to any businesses although there is a real focus to ensure that local SME's are treated fairly and given the opportunity to compete for contracts. As part of this project, the team are raising the awareness and ensuring relevant companies are aware of the opportunities that may exist.

Q. What is the NHS Good Corporate citizen agenda?

A. The Department of Health has recognised the key role that the NHS plays by contributing to strong local economies, community cohesion and a healthy environment, through how they operate on a day-to-day basis. It includes how they buy goods and services, how they build and manage buildings and land, their employment practices, how they manage their waste and transport and how they work in partnership with others to contribute to healthy local populations.

Q. How can I find out about specific opportunities?

A. It very much depends on the value of the business you are looking for and the likely end user of the product/service. In most ordering there may not be an advert/opportunity – the buyer will source the item through a number of different routes (website, catalogues, purchasing colleagues).

Q. How can I get hold of the relevant person to speak to?

A. It is best to initially contact the procurement team for a steer. They will be involved in producing the purchase order (in most cases) and would be able to give a steer on the most appropriate contact. Groundwork has specific contact names / addresses within the key departments in the NHS in England – which are available as a reference tool.

Q. There is a national contract in place – am I wasting my time contacting trusts directly?

A. If the products offered are the same as the contracted items, this will be incredibly hard to win any business. The best way forward is to find out more about the agreement and whether this is something that you want to be part of. Speak to the buyer at PASA, obtain copies of the specification from the previous tender process, find out the suppliers who are on the current agreement and how your products/services are likely to compare, timescales for the next tender process.

Q. Do Trusts have an “approved” list of suppliers that we can be part of?

A. In the majority of cases there aren't “approved” lists of suppliers within the NHS. There are contracted suppliers who have been awarded business on Framework agreements (which could be argued are more formal approved lists) and the purchasing teams will keep a library of information that may be used to select products / suppliers.

Q. How can I find out if there is a need for the goods/services I am able to supply?

A. The best thing to do in this case is to initially review the Step-by-Step guide and identify if there is any guidance from the relevant Category Specialists at the NHS Purchasing & Supply Agency. Based on any steer that you can get, it would be worth speaking to a few of the Procurement teams near to you to understand the current purchase arrangements. Always think about this from the view point of the user / purchaser – what benefits would I get from buying this (savings, performance, patient care)

Q. How am I best to communicate to the NHS?

A. It is inadvisable just to send out bespoke literature to the procurement teams but to think about the specific message you want to say to the NHS and the best people to target this to. This may be the procurement teams (who keep the information library) but could be the likes of the Facilities/Estates team, Catering Manager, Human Resources, Training, IT Manager.

Q. We aren't the cheapest option – is it still worth targeting the NHS with the focus on Efficiency reviews and savings targets?

A. Remember – decisions are made on best value rather than lowest price. If your product / service offers other benefits over and above your competitors then you do have a chance to win business. Speak to the users / purchasers to identify what the key factors are and the potential for your organisation to supply. If you are involved in a formal tender process, you need to highlight those areas which would differentiate you from the competition.

Health & Safety Environment

Q. What is the importance of having a Health & Safety / Environmental policy?

A. Within all tender documentation, there is requirement to provide a Health and Safety policy (applicable to all organisations over 5 employees).

Tender Process

Q. Isn't the main purchasing decision based on price?

A. Price is one of the key elements in a purchasing decision but certainly not the only one (and not necessarily the most important). With any formal tender process, there will be a scoring mechanism to ensure fair comparison across bids based on the responses to the specification. All tenders will stipulate the criteria against which the bids will be evaluated which may include:

- Price
- Quality
- Service
- Conformance with standards
- Running costs
- Delivery
- Technical back-up

The importance of each of these will be dependent on the complexity of the product.

Q. We have only been trading for 12 months but the Trusts are asking for 3 years accounts to be involved in tendering, does this exclude me?

A. The main reason for asking this question is to ensure that a business is financially sound and that the purchaser is not going to have to re-tender the contract if the supplier ceases to trade. It would be prudent to provide any supporting information with the 12-month sales to complement the bid (such as projected sales for forthcoming years, reference from bankers). If you have any concerns regarding this, it would be worth speaking to the buyer tendering the business.

Q. The value of the tender is 50% of our current turnover, is this going to rule us out of getting involved in the tender process?

A. There is no ruling within the NHS that eliminates any organisation based on this criterion. What an organisation will do will look at the capability of an organisation to service a contract. It is also possible for an organisation to tender for part of a contract (either a specific region or part of the requirement).

Q. What are the common mistakes made by suppliers when tendering for business?

A. The most basic mistake by suppliers is not following the instructions within the tender document:

- Missing key documents (Form of Offer)
- Not sent by the deadline stipulated (automatically ruled out of the evaluation)
- Not answering the questions within the notice

Q. What is the best way of deciding whether it is worth getting involved in a tender process?

A. Due to the time and effort that needs to be put into submitting a tender, it is worth assessing the likelihood of winning the business. At any stage of the process, you can decide to pull out of the process (e.g. if you receive the tender documentation and realise that you cannot provide the required level of service).

Q. How does the selection process work?

A. This will vary from trust to trust and will also vary dependent on the type of goods / services being tendered. Generally all tenders will be scored against a template – with criteria stipulated within the tender documentation. There are a number of examples of different scoring mechanisms used by public sector bodies at the following links:
There may be a requirement to present to the decision-making panel (although this would generally be stipulated within the tender documentation)

Top tendering tips in dealing with the NHS

If you are likely to be involved in a tender process, please bear in mind the following pointers:

- 1. Register** on www.pasa.nhs.uk/sid this is the central database of pre-qualification information (there is no cost for a supplier to register). In a number of OJEU tenders it is a requirement to have a profile published on this system
- 2. Deciding to bid.** Have you a realistic chance of winning the business? With the amount of time and effort which goes into a tender you must assess this – who are you going to be up against.
- 3. Preparation** – collate a central database of information. Some of this can be populated within NHS Sid (see point 1), although you will be asked for similar criteria from other public sector organisations. If you are looking at future tender opportunities, ask for copies of the previous specification so you are aware of the requirements, products covered and information being asked of suppliers.
- 4. Breaking contract into lots** – there may be an opportunity to tender for part of a contract. If you are only able to supply a specific region of the UK or can only supply part of the NHS's requirement, this doesn't mean that you cannot tender. It may be stipulated within the advert that it may be broken down into lots – if you should have any queries regarding this, you can speak to the buyer for clarification.
- 5. Assign roles & responsibilities** – if necessary, establish a project team. Decide who will be responsible for which sections of the tender document, making sure that you have one co-ordinator to collate the response within the timescale.
- 6. Read** the documents carefully, answering the questions accurately and in the same language style as the document. Be aware of the evaluation criteria stipulated within the tender document – this is listed in descending order of importance.
- 7. Query** – if you are unsure on any aspect of the specification ask the buyer for clarification rather than second-guess the information required.
- 8. Best value** – tenders are generally evaluated on best value rather than lowest cost. Ensure you demonstrate quality / service / performance within the response
- 9. Sell yourself** – why should they award the business to you? What differentiates you from the competition?
- 10. NHS experience** – if you have no prior NHS experience, provide details of other public sector organisations supplied. The buyer is looking for experience of handling large contracts – so provide details of business won.
- 11. Meet deadlines** – make sure you are certain of the dates and deadlines. It is useful to compile a checklist calendar. This can be used by the project co-ordinator to make sure that the team is working to the same timeframe. Sending the documents by recorded delivery will enable you to provide proof of receipt should there be any issues. The envelope containing the tender should not identify your company.
- 12. Debrief**– if you are unsuccessful, ALWAYS ask for a de-brief. You are entitled to one and it will be helpful to establish any potential areas for improvement. If it comes down to cost, although the buyer cannot give the exact differential between yours and the winning bid they can give a rough idea (e.g. between 5 – 10% higher / 20 – 30%).

Common Supplier Mistakes (from point of view of procurement teams)

- Documents missing from the tender pack – companies not returning the Form of Offer. This will result in you being eliminated from the tender process before they have been evaluated.
- Answering questions with a simple Yes / No – rather than elaborating on an answer. If you cannot provide NHS experience, give details of similar types of customers and contracts which you are supplying
- Tenders sent to the wrong location. In many cases the team responsible for opening tenders are not the same people that will be evaluating the tender responses
- Providing too much information. If you do provide too much information within a response, it can be difficult for a buyer to pick out any salient points. It is worth summarising the key benefits of your bid.

Top tendering tips in dealing with Local Authorities

1. Read the documentation thoroughly and understand what is required of you.
2. Provide all of the information requested. If you cannot provide some of the information, for whatever reason, ask for advice.
3. Don't include publicity material in your submission unless you have specifically been asked to.
4. Don't be put off by the tender documentation – you can always ask for help as directed within the tender document .
5. You must complete and return the documents by the given time and date and make sure to sign anything that should be signed. Incomplete and/or late tenders can not be taken forward to evaluation and will be returned.
6. Where relevant, cross-reference the answers or responses in your tender to the questions in the invitation to tender document. This will make it easier to evaluate.
7. Be clear on your pricing model and state any assumptions you have made when pricing (for example, resources required by you and/or the Council, timetables, etc.).
8. Read the questions carefully and answer them accurately and precisely.
9. If you are unsuccessful, make sure you ask for a debrief, you are entitled to one and it will help you to understand where you went wrong.

Recommended Websites

www.in-tendhost.com

www.supply2.gov.uk

www.mytenders.org

www.ted.europa.eu

www.nearbuyou.co.uk

www.lancaster.gov.uk

www.lancashire.gov.uk

www.preston.gov.uk

www.blackpool.gov.uk

www.burnley.gov.uk

www.blackburn.gov.uk

www.chorley.gov.uk

www.lsc.gov.uk

www.nwnhb.org

www.thechest.gov.uk