Ministry of Defence

Accelerating Commercial Pathways: The Small- and Medium-Sized Enterprises (SME) Commercial Pathway

Levelling the playing field and improving opportunities for SMEs in Defence procurement

Guide

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Accelerating Commercial Pathways SRO Foreword

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Small- and Medium-sized Enterprises (SMEs) are a vital part of our economy and the defence industrial base. They are an essential source of innovation, agility and specialist capabilities, making them key contributors to national security and operational advantage.

Yet too often they face challenges in accessing defence procurement opportunities, either as direct suppliers to MOD or in the wider supply chain – not because of their capability, but because of the complexities of the procurement process and barriers that can prevent or deter them from participating.

By opening-up more opportunities for SMEs, we will strengthen our supply chains, accelerate innovation, and deliver better outcomes – faster and more cost-effectively. This is not just about fairness; it is about unlocking value for money and driving growth across the UK.

The SME Commercial Pathway sets out how we can level the playing field for SMEs by:

- Improving our commercial practices and simplifying processes to reduce barriers faced by SMEs
- Promoting behaviours and ways of working that fully embrace the importance of SMEs
- Tackling misconceptions around SMEs, and how best to work with them, reflecting the diversity and potential of the wider market
- Tackling risk aversion by driving a proportionate approach to risk and raising awareness of best practice

We want the SME Commercial Pathway to help teams across MOD think differently, act boldly, and help build a more inclusive and dynamic defence marketplace. All teams must therefore consider the application of the SME Commercial Pathway to their procurements to identify what they can feasibly do to reduce barriers for SMEs.

We will continue to work with MOD colleagues and suppliers to ensure that the SME Pathway is clear and practical and delivering tangible benefits for SMEs. And through 2026 we will be working to ensure it is embedded as part of our standard commercial approach. I encourage feedback to shape future updates to this guidance and its implementation.

Contents

The purpose of the SME Pathway and where it should be applied

The SME Commercial Pathway provides practical guidance to help teams reduce barriers that can limit SMEs' ability to fully participate in Defence procurement.

The Defence Industrial Strategy (DIS) highlights the importance of MOD increasing its spend with SMEs in a way that supports them to grow and flourish. The SME Commercial Pathway provides a handrail to guide staff through the procurement process focusing on proven practice that teams can adopt themselves to make our contracting processes simpler, less onerous and faster, and therefore reduce barriers and increase opportunities for SMEs.

All teams must consider the application of the SME Commercial Pathway to their procurements. It will not always be possible to apply all of the advice in the SME Commercial Pathway. But it is important that teams fully assess what they can feasibly and appropriately do to reduce barriers for SMEs.

The SME Commercial Pathway has been designed to be:

- **Policy Compliant** and aligns with extant commercial policy, but aims to raise awareness of how we can adopt best practice when designing our procurements to reduce barriers and level the playing field for SMEs.
- Grounded in **Proven Practice** from across MOD, with case studies highlighting great examples of where commercial teams have challenged norms to improve the experience of SMEs bidding for MOD work.
- **Aligned with Legislation**, building on a key principle in the Procurement Act 2023 that requires the MOD to consider whether barriers to SME participation can be removed or reduced.
- **Accessible and practical**, setting out clear guidance on things teams can do to better support SMEs categorised into five themes:

1	2	3	4	5
Better promote opportunities and increase SME engagement	**Increase the number of procurement opportunities that SMEs can bid for**	**Do not be risk averse with SMEs**	**Drive supply chain collaboration and transparency**	**Strengthen SME resilience through improved cash-flow**

Tackling common misconceptions

Misconceptions about SMEs can lead to unconscious bias. If we incorrectly assume SMEs lack the capacity or capability, or are too risky to work with, then we might overlook great suppliers. This can limit competition, reduce innovation, and stop us from getting the best value for Defence. Challenging these assumptions will help us make fairer, smarter decisions.

The Defence Industrial Strategy sets out the importance of SMEs to Defence:

> *"**SMEs are at the heart of our vibrant and flexible defence industry** and are key to our ambitions. They form a vital element of the UK defence supply base, providing innovation and agile solutions to defence requirements and contributing significantly to our national prosperity through high-skilled and highly paid jobs, R&D, dual-use technology whilst contributing to the economic prosperity of all four nations of the UK".*[1]

However, the DIS also makes clear that SMEs still face too many barriers preventing them from participating fully in the defence sector. It is therefore important that we recognise:

- The important role that SMEs play in all of our procurements
- The misconceptions around SMEs and how we can work with them
- Barriers SMEs can face when participating in defence procurement

What you can do:

☑ Be aware of the common misconceptions and the risk of unconscious bias around SMEs – challenge them in your own thinking and in conversation with others.

☑ Make sure you understand the full industrial base relevant to your procurement – that includes SMEs, not just bigger companies who have the resources to engage with MOD

☑ Spend time engaging directly with SMEs to better understand how they operate and what they can offer

[1] Defence Industrial Strategy, 2025

The common misconceptions below can result in teams not fully recognising the opportunities presented by SMEs to their procurements. Being aware of these misconceptions, and better understanding the unique skills, services and capabilities offered by SMEs is the first step in applying the SME Pathway.

✘ **It's too risky to place a large contract with a small business**	✓ Many SMEs are financially stable and well-resourced. ✓ SMEs often collaborate with other suppliers to deliver larger contracts. ✓ SMEs might be better-placed to give a contract the focus and attention it needs.
✘ **There are too many small businesses to engage with - we need to go through big Primes otherwise we'd be overloaded**	✓ Many SMEs are expert in what they do – primes may not offer the same expertise or depth, so it's important that we engage widely. ✓ Engaging with more companies does not have to significantly increase workload – applying best practice when running industry days and online RFIs can allow teams to open-up engagement with SMEs.
✘ **Most SMEs are owned by a larger company anyway**	✓ Most SMEs are independent – ownership by a large company disqualifies SME status. ✓ You can check ownership via Companies House to confirm SME status.
✘ **An SME is niche and can't meet the whole MOD need**	✓ Primes might not be able to either, and might require sub-contractors. ✓ SMEs often collaborate to offer broader, integrated solutions. ✓ SMEs give smaller contracts more attention and agility.
✘ **To go to an SME means I need to know what the solution is**	✓ Many SMEs offer full lifecycle support, from analysis to integration. ✓ Primes may shape requirements to fit their own capabilities, limiting innovation.
✘ **It's okay – we can let the big Primes work with SMEs**	✓ To drive innovation, we need to explore all the options, not just sub-contractors which primes might have an existing relationship with. ✓ Primes may prefer to keep work in-house rather than use external expertise. ✓ Can reduce flexibility and slow-down procurement outcomes due to an extra layer of process.
✘ **Only big Primes can afford integration facilities for complex solutions**	✓ Especially in sectors like digital and cyber, SMEs often have their own advanced integration capabilities. ✓ SMEs are also able to access facilities owned by MOD or other companies, such as the Test and Evaluation (T&E) Innovation Gateway.

Tools and Resources

- ⓘ *Commercial Toolkit Small and Medium-Sized Enterprises (SMEs). Provides the definition of an SME, information on MOD's commitments to increasing spend with SMEs, and some of the barriers that SMEs face then trying to participate in defence procurement. Highlights that MOD teams "must consider procurements from an SME perspective", and the requirement for MOD teams to "be open and transparent and offer simple explanations and reference to online guidance to encourage SMEs to tender for a contract with MOD".*
- ⓘ *Cabinet Office Guidance: Procurement Act 2023 Covered Procurement Objectives. Explains the required within PA23 for contracting authorities, such as MOD, to "have regard to barriers to participation that may be faced by SMEs and consider whether such barriers can be removed or reduced to help level the playing field for SME access to public procurement opportunities". This includes guidance coherent with the MOD SME Commercial Pathway, along with further feedback from SMEs highlighting barriers faced by SMEs to public procurement.*
- ⓘ *Commercial X SME Toolkit. A set of practical resources including 'mythbusting' around market engagement, security clearance, simplified Invitations to Tender and simplified T&Cs. These resources, developed based on lessons from Commercial X procurements, aim to help MOD teams access niche and emerging products by breaking down barriers for SMEs to drive innovation.*

1. Better promote opportunities and increase SME engagement

SMEs are an essential part of the industrial base and often hold valuable insights and drive innovation. We must improve how we engage SMEs in our procurement with a particular focus on Preliminary Market Engagement (PME) to ensure SMEs are aware of upcoming opportunities and able to shape them.

It can be complex for SMEs to navigate and participate in Defence procurement, either directly with MOD or within the supply chain. The breadth of defence procurement and number of frameworks, entry points and portals can make it difficult for SMEs to have visibility of upcoming procurements. SMEs also lack the large teams that larger companies have to engage with MOD to secure visibility of upcoming requirements and shape procurements. Attending industry days can represent a significant cost for an SME, especially if their views are not heard or captured.

You can improve opportunities for SMEs by actively promoting opportunities and getting SME input in shaping requirements by:

- Ensuring that PME seeks out all suppliers that can help improve delivery, including SMEs who often bring specialist capabilities and expertise.
- Ensuring that upcoming opportunities are widely shared with SMEs – for example using the Defence Office for Small Business Growth or the Trade Associations to share your opportunity with a wider range of SMEs.
- Designing your PME, including industry days, in a way that maximises the opportunities and minimises the costs for SMEs, and ensures their voices can be heard. And remembering that industry days can present a significant cost to those attending, so try to stick to the plan and avoid unnecessary cancellations or delays which can have a major impact on smaller firms
- Making sure that security clearance doesn't present an unnecessary barrier to SMEs who are new to Defence, remembering that any business can bid for UK government work – Procurement Act 2023 requires us to ensure that there is no competitive advantage in having already being cleared. The Pre-Selection Questionnaire (PSQ) includes a provision for teams to determine the date by which Facility Security Clearance (FSC) is required if a supplier does not already have it to – this is to allow those without FSC to participate in fully in procurements.

Design your Market Engagement to encourage SMEs by:

- ☑ Increase visibility for SMEs by publishing pipeline and PME notices, written in plain-English with descriptive titles that will mean something to them, giving them plenty of notice of upcoming procurements.
- ☑ Tailor industry days to SME needs including offering the option of attending virtually, plain-English briefings, and the opportunity to have direct engagement for any follow-up questions.
- ☑ Do not just engage with Primes – you need to understand what is offered by the whole supply chain.
- ☑ Be as open as possible on the likely budget – SMEs often avoid bidding due to uncertainty, so sharing indicative budgets, timelines and delivery expectations can help them assess fit and plan resources.
- ☑ Provide feedback to suppliers participating in Market Engagement – this is especially important to allow SMEs to understand the next steps and direction of travel for the procurement.
- ☑ Keep market engagement events open wherever possible, ideally keeping things at the lowest classification to avoid excluding SMEs if they don't hold security clearance; don't over-classify requirements; and factor in clearance timescales to your project plan.

Tools and Resources

- ⓘ *Commercial X Supplier Engagement Guidance. A range of resources developed by Commercial X set out guidance for engaging with industry, including a 'mythbusting' fact-sheet to dispel some common myths around what teams are, and aren't, allowed to do when engaging with industry. The aim of these resources if to give teams greater confidence to engage more often and more openly with suppliers, including practical guidance for delivering market engagement ranging from Requests for Information to Industry Days.*
- ⓘ *Accelerating Commercial Pathways: Design to Cost guidance. Guidance, developed as part of the wider Accelerating Commercial Pathways programme, on the 'Design to Cost' approach including the benefits for SMEs of disclosing procurement budgets in terms of clarity around the scale of MOD opportunities.*
- ⓘ *Commercial X Security clearance for SMEs. Fact sheets for MOD teams and suppliers providing guidance on how to open-up opportunities for suppliers without security clearance including what is allowed with Baseline*

Personnel Security Standard (BPSS) to help SMEs without security clearance into Defence.

- ⓘ *Commercial Toolkit: Preliminary Market Engagement (PME). Commercial Policy on running PME, including the use of PME sessions focussed on SMEs and new entrants, use of Product Surgeries which can support co-creation, supplier visits, and the importance of investing time and energy into broad participation in PME including SMEs.*
- ⓘ *Commercial Toolkit: Contract Award and Tender Debrief. Commercial Policy on providing information to tenderers on why their tender was successful or unsuccessful, which can be very important to help SMEs – especially those new to Defence – improve how they bid for future opportunities.*

2. Increase the number of procurement opportunities that SMEs can bid for

The design of our procurements can fundamentally affect whether SMEs can participate or not. We must be more conscious of the challenges we create for SMEs in the commercial processes, and wherever possible, reduce those barriers to increase opportunities for SMEs to bid for, and win, Defence contracts.

The design and structure of our procurements can present challenges to SMEs, or even stop them from bidding. This includes the aggregation of multiple requirements into monolithic procurements which are too large for SMEs to bid for, or mechanisms which block new entrants.

SMEs bring unique capabilities, but very large procurements often demand extensive infrastructure and resources that typically only offered by large defence contractors – in FY24/25 nearly two thirds of the value of new contracts placed was across just 26 contracts with a combined value of £13.7 billion[2].

A significant proportion of MOD procurement is through frameworks, many of which are 'closed' for long durations. Whilst there can be good reasons for this, for example driving sustained investment over time and to manage resource constraints in MOD, sometimes it can limit access to innovation and improved delivery options, thereby impacting value for money.

To address these challenges, you can help level the playing field for SMEs to bid for MOD work. This requires structural changes to our procurements to increase the number of opportunities that SMEs are able to bid for – ensuring that we using mechanisms that encourage SMEs and new entrants, and ensuring that we are disaggregating large programmes wherever possible to bring in innovative, unique expertise.

- **Smaller, shorter-duration contracts**. Smaller, faster procurements can help drive competition, make opportunities more accessible to SMEs, and allow use of simpler processes. This aligns with the introduction of Procurement Segmentation set out in the Strategic Defence Review and Defence Industrial Strategy. As part of Procurement Segmentation, Rapid Commercial Exploitation will require us to use much faster, smaller contracts to pull the latest technology into operations. And the focus on

[2] MOD trade, industry and contracts: 2025.

pace-setting spiral and modular upgrades will require us to better disaggregate large programmes to allow more frequent upgrades.

- **Helping SMEs navigate defence procurement**. Defence procurement is inherently complex involving significant spend, a wide range of routes to market, multiple organisations, and an array of interconnected processes, policies and legislation. This will be daunting to those who have not been involved in defence procurement previously, but MOD teams can, and should, help SMEs and new entrants navigate this complexity through clear, accessible information and practical guidance.

Case Study: Air Commercial trialling ways to demystify procurement to support first-time bidders

As part of Preliminary Market Engagement, Air Commercial has run online briefings to explain MOD procurement: the process step-by-step, from finding an opportunity to submitting a bid and how evaluation decisions are made, using clear and accessible language.

This is helping businesses who have not worked with MOD before. There has been positive feedback from SMEs who say it helped them understand things they would not have learned from adverts alone. This is better preparing SMEs to bid and increasing the overall number of bidders.

- **Innovative commercial routes**. Teams should also seek to harness the flexibilities offered by Procurement Act 2023. This includes more flexible and adaptive competitive procedures which can allow rapid experimentation and exploitation of innovative commercial products, and greater ability to ‘ringfence’ below-threshold procurements for SMEs.
- **‘SME friendly’ Frameworks**. Teams need to take significant care when setting up frameworks which can act as a blocker or barrier to SME participation. Again, harnessing the opportunities presented by the Procurement Act 2023, wherever possible, teams should put in place frameworks that are ‘SME friendly’.
- **Focusing on outcomes to drive innovation and pace**. Wider changes in MOD are leading to greater use of problem-statement based procurement which can improve the ability for SMEs to propose novel, commercially-viable offerings. This also reduces the risk of over-specification, allowing for faster adoption of emerging technologies and exploitation of commercially available products.

- **Ensuring competitions get the best out of bidders**. The purpose of a competition is to identify the best solution – not who has the best bid writing team. To ensure this, we should harness new flexibilities offered by Procurement Act 2023 including evaluation though demonstrations, dialogue, scenario-based testing and trials to allow` SMEs to fully demonstrate what they can offer.

Help SMEs to bid for more Defence procurement opportunities by:

- ☑ As part of your Preliminary Market Engagement or routine interactions with suppliers, share clear, accessible material to help SMEs navigate the procurement process. For example, written guidance or webinars on topics such as how to be alerted to upcoming opportunities, the bidding process, how your evaluation will run, Cyber Essentials.
- ☑ You can, and should, reserve below-threshold procurements for SMEs. This will not always be appropriate, but you should fully explore the option which is a flexibility within Procurement Act 2023.
- ☑ Rember that closed frameworks risk locking-out new entrants and innovative SMEs – instead test whether an open framework or dynamic market would meet your needs. Or could you combine with another framework, thereby reducing the number of 'entry points' for SMEs?
- ☑ Apply Procurement Segmentation to your programme – can you split out smaller contracts which can be delivered faster and better exploit technology?
- ☑ Avoid detailed requirements – instead try to use problem-based requirements or cardinal points specifications to allow suppliers to innovate and drive pace through exploiting existing products.
- ☑ Through Market Engagement, fully test options to use Lots – you need to provide reasons in the tender notice if you are not using them.

Tools and Resources

- ⓘ *Cabinet Office Guidance: Below-Threshold Contracts. Guidance on below-thresholds contracts under Procurement Act 2023 including flexibility to reserve spend for SMEs, and the changes to the notices required for below-threshold procurements. As of 1 January 2026, the thresholds are £415,440 incl. VAT for Defence and Security contracts for supply of goods and services, or £135,018 incl. VAT for a non-Defence and Security contract for the supply of goods, services or works*

- ⓘ *Commercial Toolkit: Frameworks and Dynamic Markets. Policy on establishing frameworks and dynamic markets. This includes the requirement for MOD teams to consider the applicability of existing MOD, Crown Commercial Service (CCS) and Other Government Department (OGD) frameworks and dynamic markets before establishing an MOD owned mechanism to reduce duplication across Government. This refers to the greater flexibility possible with Open Frameworks with the "open" the framework for new participants, with PA23 dictating that, as a minimum, these must be opened-up to new suppliers at least once during the first 3 years.*

- ⓘ *Cabinet Office Guidance: Procurement Act 2023 Lots: Guidance on use of Lots to "split a larger single procurement into smaller 'chunks' which are then procured under separate contracts with different suppliers". This points to the potential benefits in terms of encouraging SMEs to bid, for example that they "may find it easier to tender for or deliver smaller contracts, or smaller parts of larger contracts" and that this can "support innovation, value for money, economic growth and potential expansion of the supplier base for that market."*

- ⓘ *Commercial X: "Setting industry a challenge to spark innovation". Guidance as part of the wider Commercial X SME Toolkit on challenge-based procurements where teams "define a clear problem or challenge to be addressed rather than a solution" which can then "encourage industry to be creative in finding the best, most cost effective solution". The guidance notes that this can "make it easier for SMEs to contract with us by giving them the chance to explore how they might apply their expertise or products to our domains".*

3. Do not be risk averse with SMEs

When running procurements, it is important not to be overly risk-averse. By being open to appropriate risk you can create space for innovation and unlock value that might otherwise be missed.

Risk aversion is often identified as a blocker to driving pace and innovation, and can create barriers to SMEs. By taking appropriate risk we can ensure value for money and drive effective outcomes – including making balanced decisions around the financial standing of suppliers, and ensuring that security requirements do not block SMEs from participating.

- **Making balanced decisions around the financial standing of suppliers**. The financial performance of an SME is highly influenced by MOD itself – clearly we shouldn't penalise a company simply because they have suffered from delays or pauses to a MOD programme. Equally, recognising that just because big companies may look financially stronger than SMEs, that does not mean that they are better positioned to deliver your requirement.
- **Being open to Consortia bids**. Consortiums of SMEs offer a unique blend of skills, expertise and capability. We should therefore be open to assess the combined financial strength of a consortium rather than an individual SME to best harness this exciting opportunity.
- **Setting appropriate Contractor Liability.** We should seek to minimise liability on suppliers to ensure that we are not deterring SMEs from participating in defence procurement. Fair, proportionate risk terms encourage competition, and ensure liability sits with those best able to manage it.

- **Managing risks appropriately.** A ‘red rating’ from Cost Assurance and Analysis Service (CAAS) for financial standing does not mean that a supplier will definitely fail to deliver. Commercial Teams should apply commercial judgement and apply discretion where appropriate rather than automatically discount suppliers. This includes risk mitigation through parent company or bank guarantees, close monitoring of delivery performance, and payment on acceptance / delivery of a service or goods.

  Where appropriate, teams can decide to make an “informed decision” requiring endorsement by a senior commercial officer with the rationale for not taking the recommended approach clearly recorded. In this case there will be no recourse back to CAAS in the event of the selected supplier experiencing financial difficulties.

Case Study: Commercial team applying commercial judgement to financial standing assessments

During a competition run by an MOD Commercial team, the preferred bidder received a financial standing ‘red rating’. However, the Commercial team still awarded the supplier the contract based on the following factors:

- The supplier represented better value for money, scoring higher technically and at a lower cost than the other bidders.
- It was recognised that the ‘red rating’ was not due to financial instability, but was as a result of the supplier being relatively new. Additionally, the supplier had previously delivered smaller contracts.
- The contract would see the supplier only paid on successful delivery of the required goods, reducing the financial risks the MOD faces in the unlikely event of the supplier failing or becoming insolvent.

- **Apply terms and conditions appropriately**. T&Cs including DEFCONS, are essential because they clearly set-out what the supplier must (and must not) do. But we need to remember that overly complex or excessive T&Cs can deter SMEs from participating in Defence procurement. We therefore need to ensure we apply them appropriately. We should also recognise that continually changing T&Cs means that SMEs incur additional legal costs – instead we should seek to apply standard terms wherever possible.

Reducing administrative costs of regulation

It is important that we apply T&Cs and Defence Conditions (DEFCONs) appropriately. Adding unnecessary DEFCONs can introduce barriers, delay procurements, or even worse, deter an SME from bidding.

Think carefully through which DEFCONS are essential, or which might be unnecessary given the context or nature of the procurement, e.g.:

- Is IPR really being created? If you're buying off-the-shelf items, do you need to apply specific IPR ownership or rights conditions?
- Is MOD funding development? If not, it's unlikely that we will be owed Commercial Exploitation Levy.
- Is GFx actually being provided? Do you need to include GFx related DEFCONS if not?.

Avoid risk aversion by:

- ☑ Ensure that bidders can provide evidence of their capability, such as demonstrations, case studies, references, or prototypes – try to avoid requiring large-scale delivery experience to ensure that smaller suppliers are given a fair chance to demonstrate what they have to offer.
- ☑ Take a proportionate approach when assessing financial health relative to contract size, or accepting alternative forms of assurance such as parent company guarantees or a bank guarantee. New and growing is not the same as financially vulnerable.
- ☑ Identify other risk mitigations before excluding a supplier from a procurement on the basis of financial standing – for example, payment on acceptance / delivery of a service or goods meeting the contract T&Cs and quality standards, and close monitoring of performance.
- ☑ For consortia bids, assess the financial standing of the whole consortium, not individual companies – multiple SMEs working together could provide unique capabilities and services.
- ☑ Avoid onerous T&Cs, and use standardised T&Cs wherever possible, to avoid deterring SMEs or forcing them to incur additional legal costs.
- ☑ Apply proportionate liability requirements based on the nature, value, and risk of the contract to avoid deterring SMEs from participating.

Tools and Resources

- ⓘ *Commercial Toolkit: Standardised Contracting. Use of consistent, templates of non-negotiable narrative terms and conditions which remove the need to negotiate bespoke contract terms, easing the burden on commercial staff in MOD and industry and reducing needs for use of DEFCONS which SMEs may be unfamiliar with.*
- ⓘ *Commercial Toolkit: Status of Legal Entities. Explanation of the different types of legal entities that MOD can contract with, including guidance around Consortia and use of Special Purpose vehicles (SPV) and Joint Ventures (JV) before entering into contracts. This also links with Commercial Toolkit guidance on Procurement Specific Questionnaires (PSQ) including assessments of turnover to consortia as a whole.*
- ⓘ *Cost Assurance and Analysis Service (CAAS): Supplier Insight. Guidance on assessing the financial standing of suppliers, including CAAS suggested metrics for assessing financial and economic standing. This should be used in conjunction with the Commercial Toolkit policy on Supplier Selection.*
- ⓘ *Cabinet Office: Assessing and monitoring the Economic and Financial Standing (EFS) of Suppliers. Guidance note on assessing bidders' financial capability to perform a contract, and assess whether any appropriate risk mitigations can be put in place to address any identified risks within bidders' financial capability. This includes the principle that no SME should be inadvertently disadvantaged by the EFS assessment approach and metrics applied (unless justified by relevant differences), and that this can be achieved by allowing all bidders to propose relevant mitigations where risks are identified that arise from an organisation's size or structure.*

4. Drive supply chain collaboration and transparency

Nearly all Defence procurements will involve SMEs somewhere in the supply chain, even if they are not contracting directly with MOD. Our procurement approaches should help sustain and grow SMEs within the supply chain, including rapidly spotting and addressing issues that might affect them.

Managing the supply chain is the responsibility of the prime contractor to MOD. But we can play an important role in shaping and influencing how the prime contractor manages its supply chain. This includes:

- Incentivising prime contractors to involve SMEs in the supply chain, including through Social Value and gainshare arrangements to develop a more efficient supply chain.
- Driving prime contractors to run effective competitions in the supply chain, and to encourage collaboration including identifying and harnessing the unique capabilities offered by SMEs. Driving collaboration and introducing innovative capabilities will be important for many procurements – think about how this is reflected in the requirements, and how you want the prime to ensure this happens.
- Ensuring that prime contractors provide MOD visibility of the supply chain, including where required regular review of supply chain risks and opportunities.
- Responding to challenges faced by SMEs in the supply chain. This includes encouraging a more open dialogue between MOD, the prime and sub-contractors through things like Supply Chain events to keep the wider ecosystem aware of MOD plans and allow feedback from SMEs.

Case Study: Dstl Electromagnetic Activities Accelerator (EMAA) contact designed to be 'SME Friendly'

With the EMAA route to market, Dstl have focused on lowering barriers and stimulating collaboration. The delivery partner running the contract has a clear mandate to promote broad industry involvement in research - this has led to the route to market being designed to reduce barriers and improve opportunities for SMEs, including:

- Streamlined onboarding, with ability to add new suppliers at any point
- SME-accessible tasking routes such as an "Open Call" with a two-page proposal and a "Specified Call" which aims to place contracts in 6 weeks
- Evaluation criteria that recognises collaborative behaviours so specialist SME providers are valued
- Partnering Profiles to raise visibility across the framework of SMEs' capabilities
- Streamlined assurance to accelerate deliverable acceptance supporting timely payment

SMEs make up 60% of suppliers. SMEs regularly act as task lead, as well as participating confidently as part of collaborative teams bringing together a range of capabilities from across industry and academia.

Actively encourage and shape supply chain collaboration and transparency by:

- ☑ Encourage prime contractors to set targets for SME involvement in the supply chain, for example through the application of Social Value.
- ☑ Ask companies bidding for MOD contracts to state in their tender how they intend to manage their supply chain, and include criteria for scoring those responses in the tender evaluation. For example, testing how they will deal with fluctuations in demand or measures they can take to strengthen their supply chains and drive innovation.
- ☑ Use existing data to better understand the supply chain including SME involvement. Use the data to spot SMEs that are facing operating or financial challenges, and engage with the Prime to identify potential remedies.
- ☑ Take steps to improve communications between MOD and SMEs within the supply chain, for example stipulating that primes must hold regular supply chain days to allow MOD to hear directly from sub-contractors on challenges they might be facing.

Tools and Resources

- ⓘ *Commercial Toolkit: Influencing Supply Chain Management. Sets out the policy for influencing supply chain management, including the importance of setting out in Commercial Strategies how Prime contractors manage supply chains including implement competition at the sub-contract level and encourage SMEs to bid for sub-contracts, and opportunities to encourage approaches from consortia to encourage communication and innovation in the supply chain.*
- ⓘ *Commercial Toolkit: Social Value. Policy on the application of the Social Value to MOD procurements which includes Outcomes around driving resilient, innovative and flexible supply chains, as well as supporting economic growth by removing barriers to SMEs.*

5. Strengthen SME resilience through improved cash-flow

Improving cash flow helps SMEs operate with greater confidence and agility, allowing them to properly plan and invest. Timely payment, fair payment terms and the commercial structure of contracts – both by MOD and Primes – means we can support a more resilient and responsive supply chain, enabling SMEs to focus on delivering value, innovation and growth.

Unfortunately, many SMEs face delayed payments, rigid contract and payment terms, impacting their access to working capital. There have been significant improvements around Prompt Payment which means that SMEs are paid rapidly after submitting a valid invoice, but it is important that we are aware of wider cash flow challenges for SMEs. Easing these challenges can help SMEs unlock their full potential and contribute to a healthier, more dynamic supply chain. This includes putting SMEs in a stronger position to access private financing.

Improving cash flow for SMEs can be achieved by:

- Thinking about the commercial structure of contracts. For example, if a contract has 90% of its payment links to final completion, will that mean that suppliers will have to incur high costs for raw materials which they would recoup until right at the end? Instead why not use staged or interim payments, paying suppliers at key points in the programme, for example delivery of materials, or finalisation of a system design prior to production?
- Ensuring that primes are treating their sub-contractors fairly. The Procurement Act 2023 extends 30-day payment terms of sub-contracts. From 1 October 2025, the MOD is also required to conduct spot checks on invoices at random to deter non-compliance with these rules, conducting spot checks within the supply chain sub-contracts at least once every six months from the award date of the contract.
- Improved dialogue between MOD and SMEs in the supply chain can also allow us to spot and rectify payment issues, including unfair terms that mean sub-contractors only get paid when a prime receives payment from MOD – so called “pay when paid” terms[3].

[3] Under Procurement Act 2023 Section 68(5) such provisions are only enforceable if expressly agreed in the contract. However, the practical challenge is that SMEs often have significantly less bargaining power than bigger primes, so may feel compelled to accept terms that shift disproportionate risk onto them.

Help strengthen SME resilience through improved cash-flow by:

- ☑ During your PME, ask prospective bidders whether they will need interim payment arrangements, especially where there is likely to be a large outlay on materials or significant upfront design and development costs.
- ☑ Ensure you understand what payment terms your prime contractor is 'flowing down'. Are they enforcing 'pay when paid' terms on their sub-contractors?
- ☑ Are you conducting spot checks on your prime contractor's Prompt Payment performance as part of routine contract management? Should you be encouraging them to improve their performance? Or worse, are they failing to meet contractual payment terms?

Case Study: Commercial team establishing payment schedule that supports SME involvement

During market engagement activities, a commercial team captured feedback from potential suppliers that expenditure on materials early in the programme would present cash flow challenges for many bidders. The team therefore agreed with Finance colleagues that it would be acceptable to offer interim payments, linked to delivery of materials. This was included in tender documentation with MOD taking ownership of the materials as a way of mitigating any risks if the supplier failed to deliver or became insolvent.

Taking this simple step maximised competition, with no suppliers withdrawing from the procurement, thereby ensuring value for money. Pragmatic measures minimised financial and delivery risks identified by the team.

Tools and Resources

- ⓘ *Commercial Toolkit: Contract Payment (including interim Payments) and Prompt Payment. Guidance on the use of payment terms in contracts, including flexibilities for suppliers to request interim payments in some situations and use of stage (or milestone) payments which can help improve cash flow for SMEs.*
- ⓘ *Cabinet Office Procurement Policy Note (PPN021) on Payment Spot Checks. This highlights the importance for cash flow of suppliers being paid promptly for work done and sets out how contracting authorities such as MOD can use payment spot checks to ensure that payment terms are being implemented throughout the supply chain which is of importance to SMEs.*

Wider context

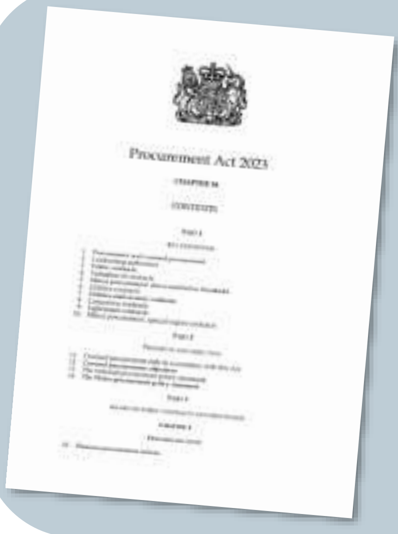
The Law, as well as Government and MOD Policy, is very clear that we must encourage SME participation in defence procurement, either directly or through the supply chain.

The MOD has made public commitments to better support SMEs and increase the share of defence spending with SMEs. The Defence Industrial Strategy commits to increasing spending with SMEs by £2.5 billion by May 2028, equating to a 50% increase in the work delivered by SMEs compared to FY 23/24.

It is the responsibility of all staff to recognise that SMEs face particular barriers to participation in defence procurement, and to consider whether those barriers can be removed or reduced. There is no ‘silver bullet’ or single policy change that we can make to help SMEs to most effectively participate in defence procurement. To make a meaningful impact, we need all staff to embrace this SME Commercial Pathway and to implement these practical measures in their procurements.

Legal and policy context

The following extracts from key legislation, strategy and policy highlight a number of important commitments which provide the context for the SME Commercial Pathway and the need to reduce barriers and open-up opportunities for SMEs:

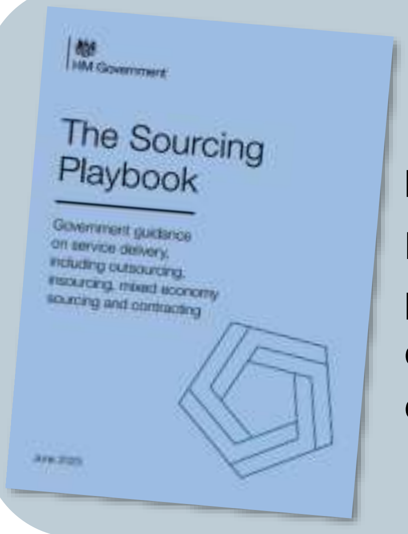

Procurement Act 2023

Procurement Act 2023

“In carrying out a covered procurement, a contracting authority must – have regard to the fact that small and medium-sized enterprises may face particular barriers to participation, and consider whether such barriers can be removed or reduced.”

National Procurement Policy Statement

“Contracting authorities should drive economic growth and strengthen supply chains by giving SMEs and VCSEs a fair chance at public contracts… Contracting authorities should: Maximise procurement spend with small and medium-sized enterprises (SMEs) and voluntary, community and social enterprises (VCSEs)”



The Sourcing Playbook

“Consult widely and encourage broad participation, particularly with SMEs and VCSEs.

Procurement processes should be of proportionate duration and effort to the size and complexity of the contract opportunity so as not to create a barrier to entry for SMEs and VCSEs.”

Defence Industrial Strategy

“Our Defence Industrial Strategy is designed to prioritise UK-based business to deliver the “Defence Dividend” from the Government’s uplift in Defence spending whilst sustaining sovereign capabilities and operational independence. We will make it easier for British-based firms – including SMEs – to do business with the MOD.”

Other relevant changes currently in development

A number of wider policy and legislative changes are currently in development that will also be relevant to the SME Commercial Pathway. The SME Pathway guidance document will be updated in due course to reflect these developments.

Defence Industrial Strategy (DIS) and Strategic Defence Review (SDR) commitments. A number of DIS and SDR developments, and wider legislative change, may have implications for the SME Commercial Pathway, which will be updated as appropriate to ensure ongoing alignment:

- **Social Value Model for Defence**. As part of the DIS, the Government has committed to establishing a Social Value Model that works effectively for Defence. This will involve a new approach to the application of social value in defence procurement, designed to better incentivise industry to support DIS objectives, including driving economic growth and fostering a more thriving industrial sector. The model will require the delivery of social value in the UK to the greatest extent possible. These changes are planned for implementation in 2026–27.
- **Offsets**. In support of the DIS commitment to backing British businesses, the Government launched a public consultation on a potential UK offset policy on 23 October 2025. Offsets are arrangements that would seek to secure wider UK economic and industrial benefits when the UK procures defence equipment from overseas suppliers. The consultation closed on 23 December 2025, and responses are currently being analysed.
- **Reduction in Defence Standards and Conditions**. The SDR and DIS include a commitment to develop proposals to reduce the burden of Defence Standards and Conditions by at least 50%. MOD continues to work with suppliers to identify opportunities to achieve this target. The outcomes of this work will inform future updates to the SME Commercial Pathway, including expanded guidance around reducing the burden of T&Cs that 'flow down' from primes to SMEs in the supply chain.
- **Procurement Act**. A public consultation titled “Public Procurement: Growing British industry, jobs and skills” set out a number of proposed changes to the Procurement Act 2023, with a strong focus on improving SME access to public procurement. The consultation closed on 5 September 2025, and the proposals, alongside consultation feedback, are currently under active consideration.

Wider Resources

The SME Commercial Pathway is part of a wider set of activities and resources to better support SMEs in Defence procurement. Other key resources include:

- The **Defence Office for Small Business Growth** which will provide services to both small businesses and MOD teams focussing on growth and shaping the defence industry landscape to develop resilient supply chains.
- **Commercial X** focussed on getting groundbreaking innovation into Defence's hands, faster, with a focus on reducing barriers to entry for smaller businesses so that MOD can access niche and emerging products more easily.
- **UK Defence Innovation** which seeks to transform Defence's innovation ecosystem, including fostering collaboration with SMEs and non-traditional defence suppliers to promote civilian-military technology spillovers.
- **Dstl** which has made a commitment to support SMEs which is central to realising its purpose of "Delivering high-impact S&T for UK's defence, security and prosperity".

What the SME Commercial Pathway means for different groups

The primary purpose of this SME Commercial Pathway is to guide MOD Commercial staff. But we hope it will also be of use to other stakeholders including industry.

Commercial staff

I feel confident applying the practical guidance set out in the SME Commercial Pathway. Where I do have concerns or questions, I know I can reach out to the Accelerating Commercial Pathways programme for advice.

Small and medium-sized business

The SME Commercial Pathway is useful in terms of setting out what we should expect to see from MOD procurements. We know that we can raise concerns directly with MOD if we feel that procurements are not following the SME Commercial Pathway.

MOD capability customers and Users

I have an awareness of the commercial approaches that can be used to maximise SME participation in my programmes. I know that I can engage with SMEs to shape my procurements, and open-up opportunities for innovation and technology exploitation.

Large defence contractors

We recognise our responsibility to support UK SMEs, and appreciate that the SME Commercial Pathway – alongside other elements of the MOD SME Action Plan – make it clear what is expected of us in terms of engaging and supporting the wider industrial base.

Providing feedback to allow improvements to the SME Commercial Pathway

We want your feedback to help us further develop the SME Commercial Pathway

Feedback from MOD Teams and suppliers if of vital importance to allow us to continue refining and improving the SME Commercial Pathway. This includes:

- Insights and experiences from teams who have tried to apply the SME Commercial Pathway practically on current procurements.
- Wider MOD teams, including relevant Enabling and Policy teams, where the SME Commercial Pathway impacts wider policy and process (and vice versa).
- Suppliers, including SMEs and larger firms, especially where they have seen the benefits of the SME Commercial Pathway through MOD procurements.

We are particularly interested to hear your thoughts on any additional guidance or approaches that the SME Commercial pathway could encourage to further reduce barriers for SMEs.

We are also keen to hear from teams who have used the SME Commercial Pathway checklist, ideally capturing your reasoning where you have been unable to apply particular points on the checklist. Your feedback will allow us to understand the issues behind this and identify whether wider changes are required to make it easier to apply this Pathway.

Feedback channels

Accelerating Commercial Pathways - Providing feedback on the SME Commercial Pathway

Feedback Link (MS Forms)

DefComrcl-ACP-Mailbox@mod.gov.uk