

Opening doors in UK public procurement

Evidence to inform a pro-startup reset.

Executive summary

Public procurement is one of the most direct ways the government can shape markets, but the UK does not yet use that demand consistently to help young technology firms move from early capability to commercial scale. The central issue is market access: whether credible young firms can reach the parts of public demand where their products, services and technologies are already relevant.

Too often, they cannot. Public procurement is formally open, but many routes are designed around suppliers that already have scale, references, balance sheets, bid teams and framework access. The result is a system that can recognise innovation in principle while filtering out younger firms in practice.

This is not a call for a new instrument. It is a call to use an old one properly. Britain has built industries through public procurement before. Admiralty orders sustained British shipbuilding for the best part of a century, and sustained state demand for rail, armaments and public works did the same for steel. In both cases the state acted as a founding customer rather than a late adopter. What has not happened is the translation of that instinct from the industries of the first industrial revolution to the sectors that determine competitiveness now: software, data infrastructure, cyber security, artificial intelligence and the systems that sit beneath critical national infrastructure.

Other governments have kept the habit. DARPA has spent six decades buying capability that did not yet exist, and the packet-switched networking, satellite positioning and speech interface programmes it funded became commercial

foundations of the modern technology economy. NASA went further and made the purchase itself the pump–primer. Its Commercial Orbital Transportation Services programme awarded SpaceX \$278 million in 2006, later raised to \$396 million as milestones were added, followed by a \$1.6 billion resupply contract in December 2008¹. SpaceX ran on roughly \$1 billion across its first decade, around half of it government contract progress payments². In June 2026 the company listed at a valuation of about \$2 trillion, the largest initial public offering on record³. Payments were released only against delivered milestones, so the state carried procurement risk rather than equity risk, and got both a capability and an industry in return. France has applied the same reasoning to digital sovereignty. Its Cloud au centre doctrine requires state systems handling sensitive data to run on SecNumCloud-qualified services immune from access by foreign authorities, a requirement since reinforced in law, and it has pulled a domestic trusted cloud sector into existence⁴.

The UK now sets its own procurement rules for the first time in a generation. Leaving the EU removed the constraints of the EU procurement directives, and the Procurement Act 2023 was drafted on a clean sheet. That freedom has not yet been used to point public demand at the sectors the UK says it intends to lead. International commitments, including the WTO Government Procurement Agreement, still rule out crude national preference, but they do not prevent the state from designing routes, lot sizes, security requirements and sovereignty conditions that domestic challengers can realistically meet. The question is not whether the UK is permitted to favour capability built and controlled here. It is whether it chooses to.

The BCC and Tussell SME Procurement Tracker records £45.2 billion of direct public sector spend with SMEs in 2025, or 21% of all direct procurement, a six-year high⁵. Central government is the outlier. It spent £6.4 billion directly with SMEs, just 10% of its procurement: the lowest share of any

part of the public sector, and down on where it stood in 2020. Local government reached 34% and NHS bodies 16%. Against the new departmental targets, departments are on average 8.4 percentage points short, and the Department for Science, Innovation and Technology, the department that owns the UK technology agenda, came in 28% below its own target⁶.

Even 10% overstates what is genuinely available to young firms, because the data does not distinguish a mature SME from a company trying to win its first public sector customer. A 20 year old services firm with 200 employees and a 3 year old software company may both fall outside the large company category, but they face very different barriers⁷.

The government does not publish a comparable startup procurement series based on firm age, such as firms under five years old. Nor does it routinely show supplier age, procurement route, contract size, payment performance, framework access, pilot participation or follow-on adoption in a way that would reveal whether young firms are entering public markets or being filtered out before competition begins. Without that visibility, startup access is hidden inside broader SME policy.

Our own analysis of UK technology scale-ups shows the same picture from the supplier side. These are firms winning in the United States, the most competitive and most demanding technology market in the world, against incumbents with far greater scale and far deeper reference bases.

A company that has cleared the procurement, security and assurance bar of a US federal agency or a global bank has met a standard at least as demanding as most UK public tenders set. Being validated in the hardest market in the world and overlooked at home is not a signal about quality. It is a signal about route design, and the cost falls on the taxpayer, who pays for alternatives that have not been shown to be better.

There is a second argument here, and it is not industrial policy. Critical national infrastructure increasingly runs on systems owned and controlled outside the UK, which means continuity of service depends on decisions taken under another country's law. In sworn testimony to a French Senate inquiry into public procurement and digital sovereignty in June 2025, Microsoft France's director of public and legal affairs was asked whether he could guarantee that French citizens' data would never be passed to US authorities without French consent. He answered that he could not⁸. In the same year, the International Criminal Court's chief prosecutor was reported to have lost access to his Microsoft email account following US sanctions. Microsoft disputes that it suspended any service to the court, and the court has since moved its productivity software to a sovereign open source alternative⁹. The disputed facts matter less than the settled ones. The architecture permits a kill switch, and the decision to accept that exposure is taken at the point of purchase. Every sourcing decision that leaves a critical system under foreign jurisdiction is a sovereignty decision, usually taken by default and rarely recognised as one.

Public procurement is not one market, of course; it is a set of routes, channels, categories and qualification rules. In startup-relevant areas such as digital services, data infrastructure, cyber security, health technology, education technology, workforce systems, civic technology, public safety, transport optimisation, preventative services and defence or dual-use technologies, young firms can be commercially credible suppliers. But large lots, closed frameworks, long refresh cycles, high insurance expectations, turnover thresholds, vague specifications, weak feedback and unclear routes from pilot to contract all favour incumbents.

Frameworks can improve efficiency and speed for buyers, but they can also restrict entry if supplier lists remain closed, lots are too broad, or admission criteria favour previous public-sector experience over capability.

The National Audit Office estimates that public-sector bodies spend around £125 billion a year on common goods and services, with around £25 billion through Crown Commercial Service frameworks in 2022/23¹⁰. That does not mean this market is closed to startups. It does mean that route design has a material effect on who can enter.

The missed opportunity is the failure to convert relevant public demand into accessible, contestable commercial routes for young firms. Innovation activity is not enough. Pilots, challenges and testbeds only support startup growth where they lead to paid adoption. A pilot without a budget holder, procurement route, integration plan or decision point can absorb scarce startup time without creating revenue, reference value or scale.

The economic case should therefore be made through the supplier pathway, not through arbitrary multipliers. This report models the effect of shifting relevant demand from a large-incumbent pathway to a small-challenger pathway, using official employment, turnover and digital-economy GVA data. It does not assume that smaller firms are automatically more productive. In fact, the model gives large incumbent suppliers the higher GVA-per-worker assumption. The difference comes from employment intensity: small employing businesses support more jobs per pound of turnover than large businesses.

On that basis, every £1 billion of relevant public demand converted from a large-incumbent pathway to a small-challenger pathway would support around 1,427 additional job equivalents and £56 million more direct GVA than the large-supplier counterfactual. At £5 billion of converted annual demand, the direct differential would be around 7,136 job equivalents and £281 million of GVA. These are not whole-economy forecasts. They are direct supplier-side comparisons, before any wider effects from follow-on sales, investment, exports or productivity gains.

A pro-startup procurement reset should not ask public bodies to lower standards or accept undue risk. It should instead give them better ways to manage that risk: smaller and more modular lots, staged contracts, open-entry and dynamic routes, clearer problem statements, proportionate qualification, stronger feedback, prompt payment and explicit routes from pilot to paid adoption.

The UK already has many of the components needed to do this better: Innovate UK Contracts for Innovation¹¹, the Procurement Act 2023, dynamic markets, Find a Tender, the Central Digital Platform, public-sector missions and a strong technology base. What it lacks is a coherent startup procurement pathway. Innovation funding often sits separately from procurement. Pilots are not consistently connected to buying decisions. Procurement platforms publish opportunities but do not yet work as serious market-access tools. Data is collected for compliance, but not sufficiently for understanding startup entry, progression and growth.

A pro-startup reset should measure young-firm participation directly, identify startup-suitable categories, expand open-entry routes where markets are fast-moving, reduce unnecessary pre-award burdens, design pilots with commercialisation routes from the outset, treat sovereignty of supply as a stated requirement wherever the system is critical rather than as an afterthought, and track whether first public customers lead to repeat adoption.

The state is already spending. The question is whether that spending continues to reproduce existing supplier structures, or whether it is also used to open markets, validate new solutions, keep control of critical systems in British hands and help build the next generation of UK firms.

⁸Testimony of Anton Carniaux, Microsoft France

⁹Reporting on ICC access to Microsoft services

¹⁰NAO – Efficiency in government procurement

¹¹UKRI – Innovate UK contracts for innovation

Current state

What the available data can and cannot tell us

The UK has two main official ways of looking at procurement scale, but neither answers the startup access question directly.

The first is the Whole of Government Accounts view of procurement from the private sector. This is the better measure for understanding how much public money flows to external suppliers. On that basis, procurement from the private sector reached £340.9 billion in 2023/24, broadly equivalent to one third of total public spending available often share hidden dependencies: identity services, CI/CD (Continuous Integration/Continuous Deployment) pipelines, network policies, or administrative tooling. When these shared components fail, redundancy assumptions collapse, exposing organisations to simultaneous multi-system disruption.

From a recovery standpoint, this means that resilience cannot be assessed solely at the service level; it must be evaluated at the level of data flows, control paths, and operational dependencies.

Figure 1: Share of total public spending into the private sector

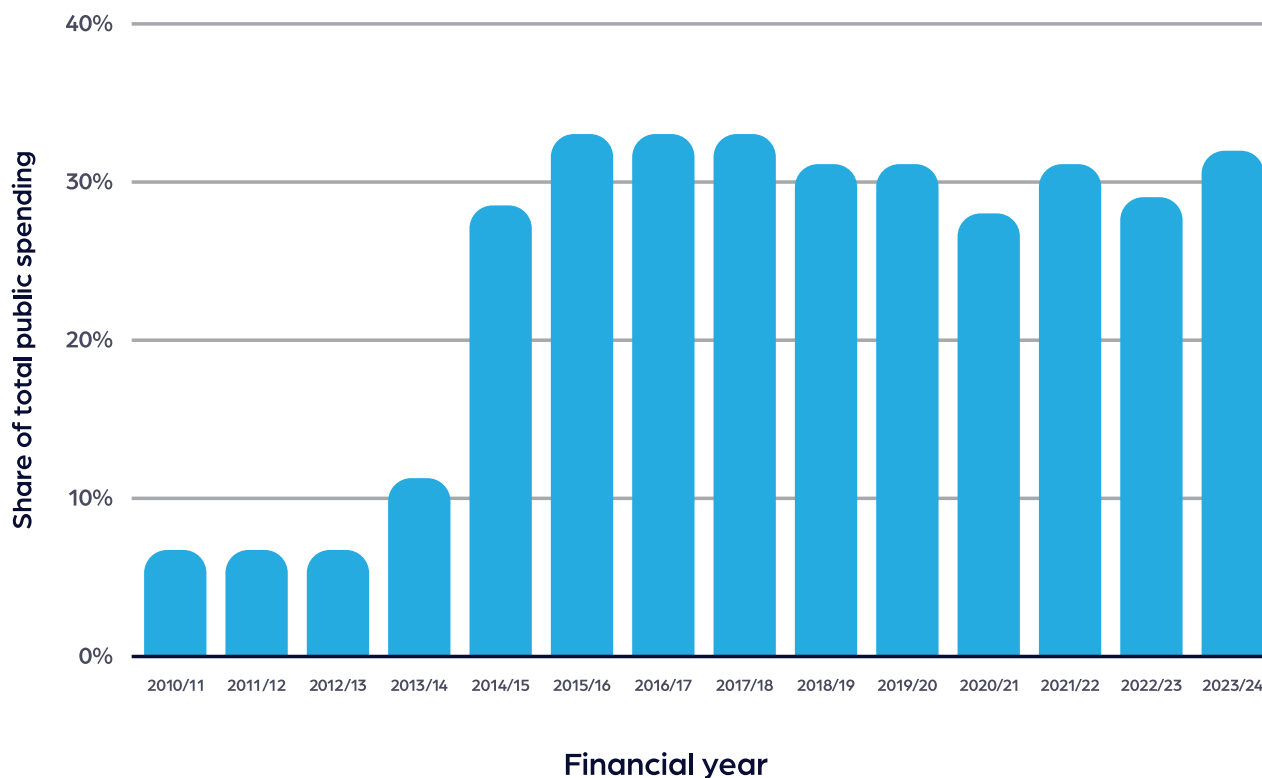
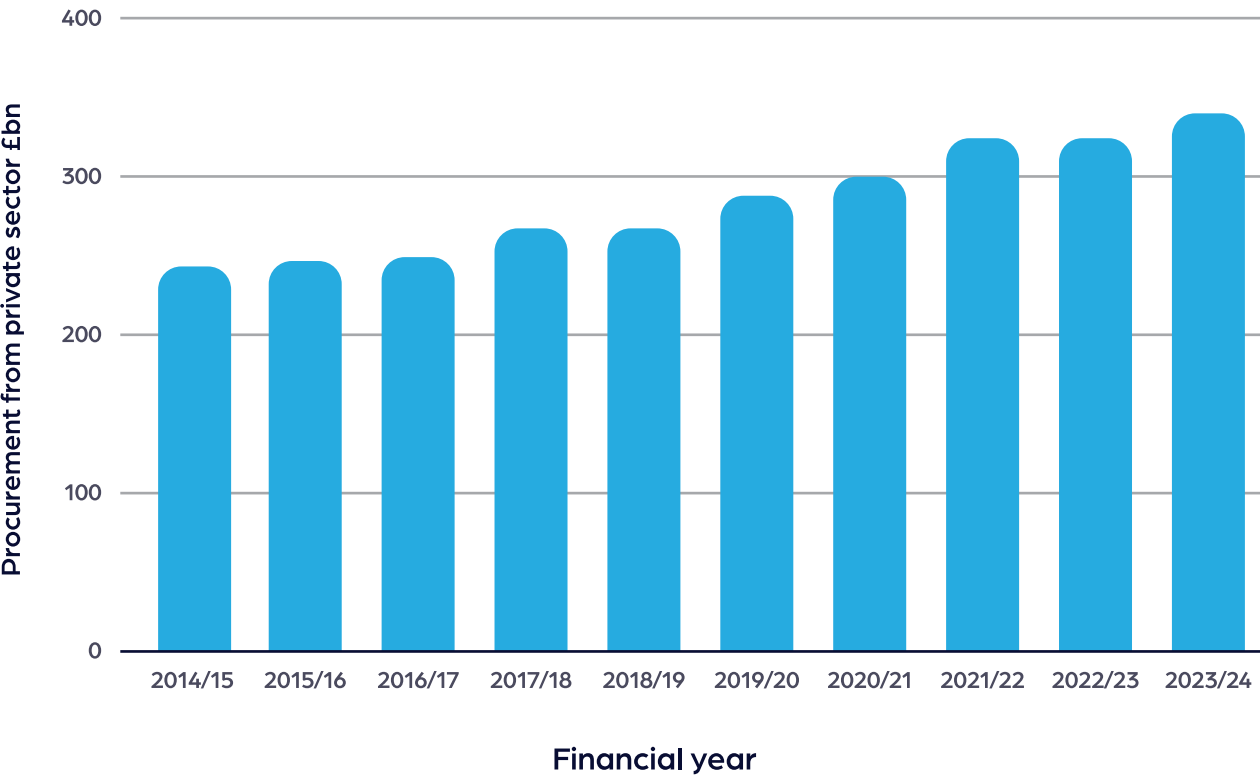


Figure 2: Total public procurement (£bn) from the private sector



The second is the gross procurement view used in Public Expenditure Statistical Analyses. This includes procurement between public-sector bodies as well as procurement from external suppliers. On that broader basis, gross public procurement reached £434 billion in 2024/25.

These figures are useful, but they should not be treated as interchangeable. The private-sector procurement figure is the better starting point for understanding supplier markets. The gross procurement figure is useful for understanding where spending pressure sits across public services. Neither tells us how much public demand is realistically available to startups, nor how much is already reaching them.

That is the central data gap. The UK publishes central-government SME procurement data, but the latest consolidated series runs only to 2021/22. In that year, central government reported £79.154 billion of procurement spend. SMEs received £20.96 billion, equivalent to 26.5% of the total, but only £9.77 billion was direct spend. The rest reached SMEs indirectly through supply chains.

This is an important proxy, but a limited one. SME data does not show startup participation. It does not identify firms under five years old. It does not distinguish between mature SMEs and young firms trying to win their first public-sector customers. It also covers central government, not the full public sector. The result is that the UK can make claims about SME access, with caveats, but cannot yet say whether procurement is helping young firms enter and scale in public markets.

The new SME target regime should improve direct SME reporting from 2025/26 onwards, but it does not solve the startup measurement problem. Departments are now required to set three-year direct SME spend targets and publish annual progress. That is useful, but it remains an SME measure⁴. It does not tell the government whether young firms are winning direct contracts, entering through dynamic routes, being confined to subcontracting, or failing to progress from pilot to paid adoption.

For a pro-startup procurement strategy, the missing data is not a technical inconvenience. It is a policy constraint. Without supplier-age data, contract-size data, route-to-market data and follow-on adoption data, the government cannot identify which parts of procurement are open to young firms, which are closed in practice, and where reform is changing outcomes.

Market access is shaped by procurement route

Startup access depends less on the total size of procurement than on how demand is structured. A young firm does not experience public procurement as a single market. It encounters frameworks, dynamic markets, open competitions, direct awards, challenge funds, pilots, subcontracting routes, approved supplier lists, grant-backed trials and local buying decisions. Each route has different entry conditions. Some are open and contestable. Others require a supplier to have been admitted months or years before the relevant opportunity appears.

Framework agreements are the clearest example. They can help public bodies co-ordinate demand, reduce duplication

and buy faster. But they can also restrict entry. A startup that was too young, too small or not yet visible when a framework was created may be unable to compete for call-off contracts until the framework reopens or is replaced.

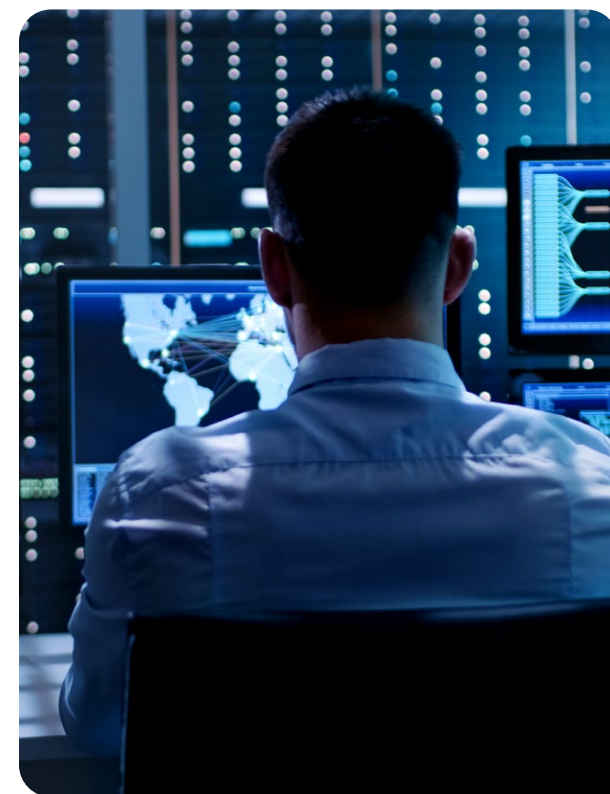
Dynamic markets offer a potentially better route for some categories. Under the Procurement Act 2023, dynamic markets are designed to remain open to new suppliers during their lifetime. Contracting authorities must accept applications for membership at any time, consider them within a reasonable period, and cannot limit the number of suppliers admitted if they meet the relevant conditions. In principle, this is better aligned with startup markets, where capable firms may emerge after a procurement route has been established.

But the existence of dynamic markets is not enough. The startup access question is whether they are used in the right categories, whether membership conditions are proportionate, whether buyers actually compete work through them, and whether data is collected on who joins, who bids and who wins. At present, public aggregate data on dynamic-market spend, supplier age and category use remains weak. That means one of the most promising route-design reforms is still difficult to assess from the outside.

The supplier participation picture is incomplete

The available evidence suggests that public procurement remains easier to navigate for established suppliers than for young firms. This does not mean startups are excluded from all public contracts, or that large suppliers are always

inappropriate. It means the default risk model still tends to favour firms with trading history, public-sector references, balance sheet strength, insurance cover and bid capacity.



Several features of procurement design matter here.

1. Direct access matters. Indirect SME spend through supply chains may be valuable, but it is not the same as a young firm winning a public customer. A subcontract can provide revenue, but it may not provide the same reference value, buyer relationship, product validation or follow-on adoption route as a direct public contract.

2. Contract size matters. Large aggregated contracts can make sense for some services, but they can also exclude specialist suppliers that could deliver a component, product or module well. For startups, lotting is not a technical procurement detail. It can determine whether they are able to bid at all.
3. Qualification requirements matter. Turnover thresholds, insurance expectations, liability terms and evidence of prior delivery can all be reasonable in some contexts. But when applied mechanically, they can exclude young firms before their actual capability is assessed.

4. Timing matters. A startup market can change quickly. A procurement route that refreshes every several years may miss firms that did not exist, or had not yet matured, when the route opened. A market access model designed around static supplier lists will always struggle to capture young, fast-developing firms.
5. Conversion matters. Many startups can access pilots, trials or innovation programmes more easily than mainstream procurement. The harder question is whether those pilots lead to paid adoption. A procurement system that funds experiments but fails to create commercial pathways can consume startup time without creating durable demand.

6. This is why startup procurement cannot be reduced to SME access. The issue is not simply whether smaller firms receive a share of public spend. It is whether public demand is structured in ways that allow young firms to enter, prove value, win revenue, and scale beyond initial trials.

Sector profile

The gross procurement data shows where public spending pressure is concentrated. In 2024/25, the largest areas of gross procurement were health, social protection, economic affairs, education and defence.

Sector	Gross procurement spend 2024/25 £bn
Health	140.6
Social protection	55.2
Economic affairs	53
Education	47.4
Defence	45.6
Public order and safety	26.8
General public services	18.9
Housing and community amenities	17.5
Environment protection	15.8
Recreation, culture and religion	12.9

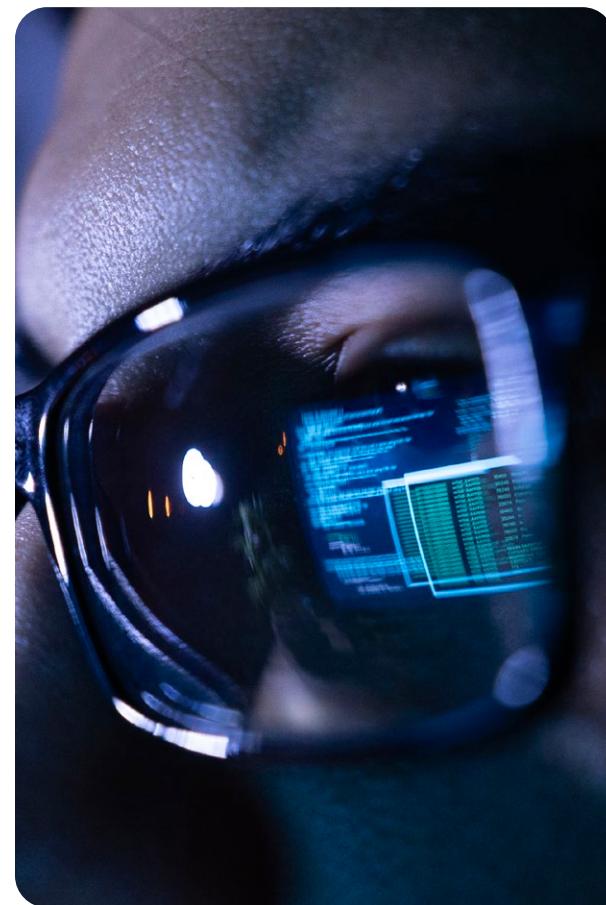
Table 1: Gross procurement spend

These figures should not be read as a map of startup-suitable spend. Health procurement includes large volumes of clinical, facilities, pharmaceutical and regulated service spending. Defence includes major platforms and long-cycle programmes. Social protection includes complex care and welfare-related services. Much of this spending will not be directly contestable by startups.

The more useful question is where startup-relevant demand sits within these large categories. In health, that might include diagnostics, workflow tools, patient engagement, data infrastructure, remote monitoring and preventative care. In education, it might include skills platforms, assessment tools, learning analytics and administration software. In defence and public safety, it might include cyber security, sensing, simulation, resilience, logistics, dual-use technologies and emergency-response tools. In economic affairs and transport, it might include mobility data, infrastructure monitoring, optimisation software and place-based digital systems.

A pro-startup procurement strategy should therefore avoid broad claims about whole sectors. The right unit of analysis is the category, use case or problem area. The task is to identify where young firms are credible suppliers, then examine whether procurement design allows them to compete. In some cases the answer will be direct contracting. In others it may be modular lotting, challenge procurement, dynamic markets, testbeds, subcontracting with stronger visibility, or phased routes from pilot to adoption.

The current state is therefore defined by a mismatch. Public demand exists in areas where startup innovation is relevant, but the data and procurement routes do not yet make that opportunity visible or consistently accessible. Government can see procurement scale. It can partially see SME participation. It can see frameworks, tenders and published awards. But it cannot yet see the full startup pathway from market entry to contract award to follow-on adoption.



Missed opportunity

The missed opportunity is the failure to convert existing public demand into accessible, contestable routes for young firms in categories where startups are already commercially relevant. This is not primarily a question of creating new spending. It is a question of changing how existing demand is specified, packaged, competed and converted into contracts.

The public sector already buys services, technologies and systems in areas where young firms can plausibly contribute: data infrastructure, cyber security, health technology, education technology, workforce systems, civic technology, public safety, transport optimisation, preventative services and defence or dual-use technologies. In these markets, startups do not need special treatment so much as a realistic route to compete. They need requirements that can be bid for, qualification rules that do not exclude them before quality is assessed, and procurement routes that remain open as markets evolve.

The evidence points to a structural access problem. Public procurement is often organised through large contracts, framework agreements, long refresh cycles, high insurance expectations, turnover thresholds and complex qualification processes. Each of these may be defensible in some contexts. Together, they create a system that is easier for established suppliers to navigate than for young firms trying to win their first public-sector customers.

Frameworks illustrate the point. They can improve efficiency⁵, reduce duplication and help buyers move faster. But their design matters. Where frameworks remain closed for long

periods, use large lots, limit supplier numbers, or favour previous public-sector experience, they can restrict entry for firms that were too young or not yet visible when the route was created. The National Audit Office estimates that public-sector bodies spend around £125 billion a year on common goods and services, with around £25 billion spent through Crown Commercial Service frameworks in 2022/23⁶. That does not mean this whole market is closed to startups. It does show that a substantial volume of public purchasing is mediated through route designs that directly shape who can enter.

The same problem appears in the gap between innovation activity and mainstream buying. The UK already funds pilots, trials, challenge programmes and testbeds. These can help public bodies explore new solutions, but they do not create market access unless there is a route to paid adoption. A pilot without a budget holder, procurement route, integration plan or commercial decision point may produce learning, but it does not necessarily produce a customer. For startups, that distinction is material. A public-sector pilot can validate a product and create reference value. It can also absorb scarce time and cash without creating revenue.

Dynamic markets offer one route to a better model. Under the Procurement Act 2023, dynamic markets are intended to remain open to suppliers during their lifetime, rather than fixing the supplier list at the outset. That principle is better aligned with startup markets, where credible suppliers may emerge after a route has been created. But the opportunity will only be realised if dynamic markets are used in startup-relevant categories, membership conditions are proportionate, buyers actively compete for work through them, and government tracks who joins, who bids and who wins.

The deeper problem is informational. The government cannot currently see the startup procurement pathway clearly enough to manage it. It can report procurement

totals. It can report some SME spend. It can publish opportunities and awards. But it does not routinely show whether young firms are entering procurement routes, whether they are winning direct contracts, whether they are only appearing as subcontractors, whether they are being screened out by qualification requirements, or whether pilots lead to follow-on adoption.

This weakens both accountability and reform. Without supplier-age data, the government cannot distinguish startup access from general SME access. Without contract-size and lotting data, it cannot see whether requirements are being packaged in ways that young firms can bid for. Without route-to-market data, it cannot tell whether dynamic markets, open frameworks, challenge procurement or other mechanisms are improving access. Without follow-on adoption data, it cannot know whether innovation programmes are creating durable demand or simply funding isolated experiments.

The opportunity is therefore to build a more visible and deliberate pathway from public need to startup adoption. That pathway should begin with clearer identification of startup-suitable categories and problem areas. It should use smaller lots, staged contracts and open-entry routes where appropriate. It should reduce unnecessary pre-award burdens around insurance, turnover and repeated documentation. It should improve feedback, payment discipline and buyer capability. And it should connect pilots to explicit commercialisation routes from the outset.

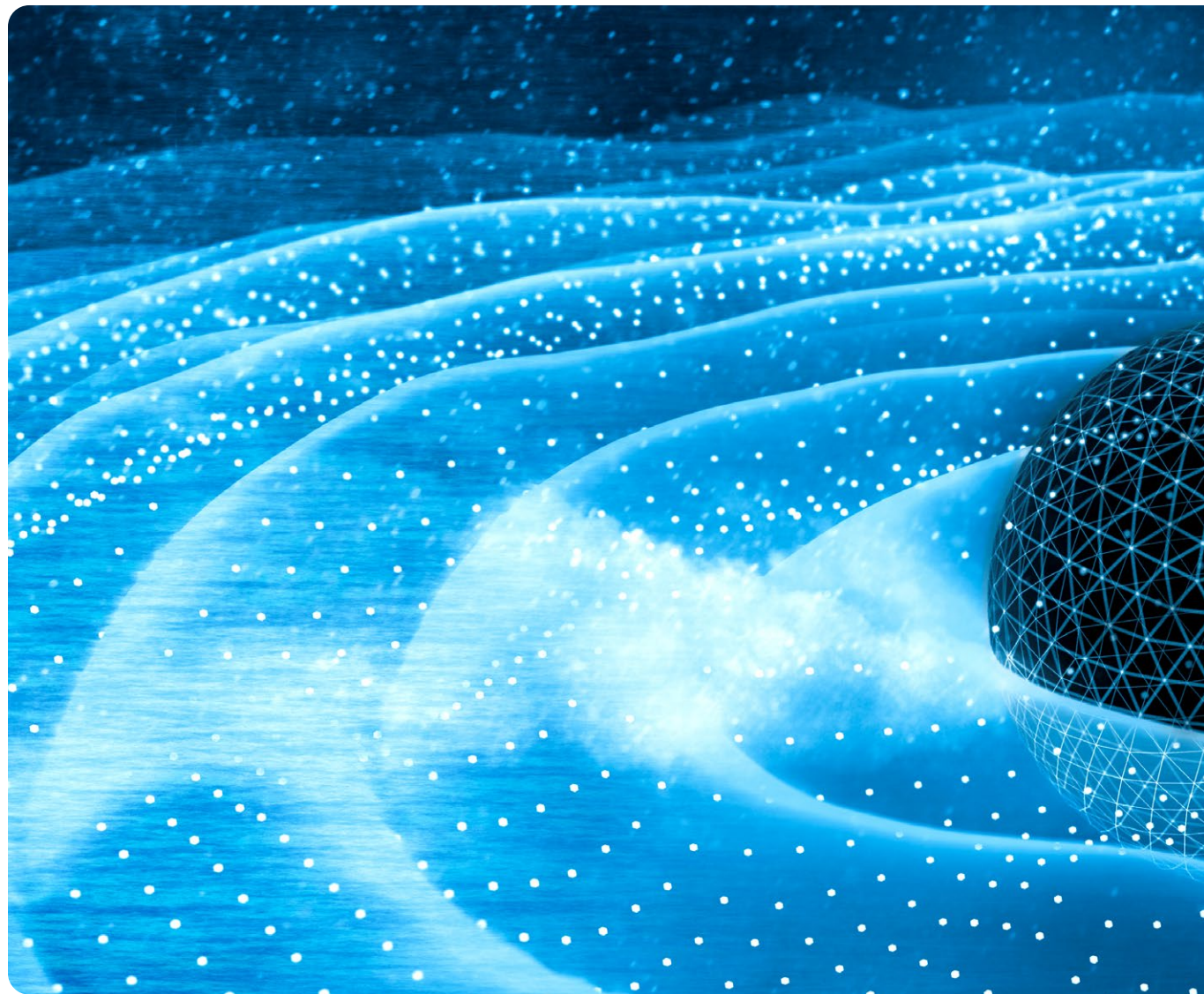
⁵FT.com

⁶NAO – Efficiency in government procurement

Missed opportunity : continued

The economic value of this is not limited to the first contract. A public-sector customer can help a young firm build credibility, validate a product, attract investors, win further customers and enter overseas markets. This is especially important in sectors where the state is a major buyer, regulator or validator, including health, education, defence, cyber security, critical infrastructure, transport and public safety. In these markets, procurement can do more than purchase existing services. It can help form markets, create trust and accelerate the growth of firms that are solving public problems.

The missed opportunity is therefore clear: too much public demand that could test, validate and scale innovative young suppliers is still structured in ways that favour incumbency. A pro-startup procurement reset would not ask public bodies to lower standards. It would give them better ways to manage risk, open the market and convert relevant demand into commercial opportunities for capable young firms.



Barriers that may exclude startups

Startup exclusion rarely happens through a single formal rule. It is more often the cumulative effect of procurement design. A young firm may be able to solve the problem, but still fail to enter the process, pass qualification, absorb the bid cost, manage cash flow, or convert a pilot into a contract. The result is a market that appears formally open, but is harder to contest in practice.

The barriers below matter because they act at different points in the procurement pathway: before the opportunity is visible, before a bid can be submitted, during evaluation, after award, and after a pilot or first contract. Reform needs to address the whole pathway, not just one stage.

Barrier	Evidence	Why it hurts startups more
Closed frameworks and limited supplier lists	>£35bn of awards via frameworks in 2023; ~£125bn annual spend; 8,000–21,000 frameworks	New firms not already on the list cannot bid for many call-offs
Late payment	328 late-payment cases handled; £7.3m recovered	Startups have thin working-capital buffers and higher financing costs
Insurance and liability requirements	PPRS ^a cases on unlimited liability and high insurance levels; 2025 reform drive explicitly targeted pre-award insurance	Young firms may not hold expensive cover until they actually win work
Turnover thresholds	PPRS casework recorded complaints that turnover rules and capped supplier numbers excluded SMEs	Startups often fail historic-revenue tests even when technically capable
Vague specifications and evaluation opacity	PPRS cases involved vague requirements, unclear scoring, repeated standstill issues and lack of feedback	Established incumbents can absorb ambiguity; startups cannot price or evidence against unclear requirements cheaply
Repetitive qualification burdens	Government reform history repeatedly targeted PQQs, repetitive disclosure and complex dialogue procedures	Startups face disproportionate bid costs relative to contract size
Weak post-Act measurement	Official central-government SME series stops at 2021/22; new target framework does not yet give results	What is not measured cannot be managed

Table 2: Key barriers limiting startup access to UK public procurement

Barriers that may exclude startups : continued

These barriers do not all apply equally in every category. In some markets, high assurance, insurance or delivery requirements are necessary. The issue is proportionality. Requirements that are sensible for a national infrastructure contract may be excessive for a modular software tool, an analytics product, a preventative health intervention or a small-scale operational pilot. A pro-startup procurement system would not remove risk controls. It would match them more carefully to contract value, delivery risk and the actual role of the supplier.

The clearest barrier is route closure. If a young firm cannot get onto the relevant route, it cannot compete for the work, regardless of product quality. Frameworks are the most visible example, but the same issue can appear in approved supplier lists, local preferred-supplier arrangements and closed routes from pilot to adoption. The problem is not that all frameworks exclude startups. The problem is that framework design can determine whether public demand remains contestable as supplier markets evolve.

Dynamic markets should help where supplier markets are fast-moving. Because suppliers can apply to join during the life of the market, they are better suited to categories where new firms emerge, technologies develop and buyer needs change. But their impact will depend on implementation. If membership requirements are too onerous, if buyers do not use them for real opportunities, or if the data does not show who joins and wins, they will not solve the access problem.

Qualification requirements are the next major filter. Turnover thresholds, trading-history tests, insurance levels and liability terms are often justified as risk controls. Used carefully, they can be. Used mechanically, they become proxies for maturity rather than capability. That matters because startups are almost always commercially young by definition. A procurement system that treats lack of long trading history as evidence of delivery incapacity will systematically favour incumbents.

Specification and evaluation then shape whether young firms can compete on substance. Startups need buyers to define problems clearly, explain evaluation criteria, distinguish essential requirements from preferences, and provide feedback after decisions. Without that, the process rewards familiarity, bid-writing capacity and prior public-sector experience. A startup may have a better solution but still lose because the competition is written in a language that favours established delivery models.

Payment is a separate but connected issue. Public-sector payment problems are often discussed as a general supplier concern, but the effects are uneven. Large suppliers can usually absorb late payment more easily than startups. Young firms operate with smaller cash reserves, shorter runways and less access to low-cost finance. A delayed invoice can force a firm to defer hiring, slow delivery, seek emergency capital or avoid future public-sector work altogether.

The final barrier is conversion. Many startups can access innovation activity more easily than mainstream procurement. They may be invited into pilots, accelerators, challenges, sandboxes or testbeds. These can be useful where they are connected to real public-sector demand. They are much less useful where the buyer has no budget, no route to contract, no adoption decision and no plan for scaling beyond the trial. In those cases, public innovation activity can become a substitute for purchasing rather than a pathway into it.

The underlying problem is that procurement policy still treats startup access too much as an extension of SME access. That is not precise enough. A mature SME may need simpler processes and fairer treatment. A startup may need those things too, but it also needs staged risk, open-entry routes, proportionate qualification, clear conversion points and evidence that a first public customer can become a route to wider adoption.

The practical test for reform is therefore straightforward. At each stage of the procurement pathway, government should ask whether a credible young firm could realistically proceed.

Can it see the opportunity early enough? Can it join the route? Can it bid without disproportionate cost? Can it pass qualification on the basis of relevant capability rather than maturity alone? Can it understand how it will be evaluated? Can it manage the cash flow of delivery? Can a successful pilot become a paid contract? Can a first contract lead to follow-on adoption?

If the answer is no, the market may be formally open, but it is not genuinely startup-accessible.

Indicative impact of procurement changes

The impact model compares two supplier pathways: relevant public demand continues to flow mainly to large incumbent suppliers, or a proportion of that demand is made more accessible to smaller challenger firms, and won by them. The model does not assume that startups or smaller firms automatically generate more value than large companies. It asks what changes when the same contract value flows through a different supplier type.

Because the UK does not publish a startup procurement series by firm age, the model uses small employing businesses as the closest official proxy for procurement-capable young or challenger firms. It compares them with large businesses, which are used as the proxy for incumbent suppliers. This is imperfect, but it is empirically grounded and more defensible than applying an arbitrary GDP multiplier.

The model uses two official layers of evidence.

First, it uses the Department for Business and Trade’s 2024 Business Population Estimates to compare employment intensity by firm size. At the start of 2024, UK small businesses with 1 to 49 employees had 8.521 million employees and £1.46 trillion of turnover. Large businesses with 250 or more employees had 11.116 million employees and £2.52 trillion of turnover. This implies that £1 billion of turnover supports around 5,837 jobs in small employing businesses, compared with around 4,410 jobs in large businesses⁹.

Supplier type	Employment	Turnover	Turnover per employee	Job equivalents per £1bn of turnover
Small employing businesses, 1 to 49 employees	8.521m	£1.460tn	£171,300	5,837
Large businesses, 250+ employees	11.116m	£2.520tn	£226,700	4,410
Difference, small minus large	-2.595m	-£1.061tn	-£55,400	+1,427
Difference, percentage terms	-23.3%	-42.1%	-24.4%	+32.4%

Table 3: Supplier-size comparison: employment, turnover and job equivalents per £1bn

⁹UK Government – Business population estimates for the UK and regions

Small employing businesses have lower aggregate employment and turnover than large businesses, and lower turnover per employee. That means they are less turnover-productive on this measure. However, because they generate less turnover per employee, they are more employment-intensive: each £1 billion of turnover supports around 5,837 job equivalents in small employing businesses, compared with around 4,410 in large businesses. The direct employment differential is therefore around 1,427 additional job equivalents per £1 billion of contract value routed through the small-employer pathway.

This does not prove that smaller firms are more productive, nor that procurement routed to smaller firms automatically creates more economic value. It shows a narrower and more defensible point: if relevant public demand shifts from a large-supplier pathway to a small-employer pathway, the direct employment intensity of that spend is higher, while turnover per employee is lower. The GVA comparison then depends on the GVA-per-worker assumption used in the next step of the model.

Second, it uses the government’s 2025 digital economy measurement work to avoid assuming that smaller or frontier firms are more productive. In that analysis, frontier dedicated digital-economy enterprises generate £89,007 of GVA per employee, while traditional diversified digital-economy enterprises generate £105,082 of GVA per employee . The model applies the lower frontier productivity figure to the small/challenger pathway and the higher traditional diversified productivity figure to the large/incumbent pathway.

This is deliberately conservative. It means the model allows large incumbent suppliers to be more productive per employee. Any positive differential comes from the employment intensity of smaller suppliers, not from assuming they produce more GVA per worker .

The model estimates the effect of routing the same value of procurement through two different supplier pathways: a large-incumbent pathway and a small-challenger pathway.

For each pathway, the model first estimates how many job equivalents are supported by the contract value. It does this by dividing the converted procurement value by the relevant turnover per employee figure for that supplier type.

It then estimates the GVA supported by those job equivalents. It does this by multiplying the number of job equivalents by the relevant GVA per employee assumption.

The direct differential is the difference between the two pathways. In other words, the model compares the jobs and GVA supported if the spend flows to small challenger firms with the jobs and GVA supported if the same spend flows to large incumbent firms.

On that basis, every £1 billion of public demand shifted from a large-incumbent pathway to a small/challenger pathway would support the following direct difference.

Measure per £1bn of converted demand	Large incumbent pathway	Small challenger pathway	Direct differential
Job equivalents supported	4,410	5,837	+1,427
GVA supported	£463m	£520m	+£56m

Table 4: Direct impact of routing £1bn through small challenger suppliers vs incumbents

The scenario results are as follows.

Annual public demand converted by year five	Jobs if won by large incumbent suppliers	Jobs if won by small challenger suppliers	Direct jobs differential
£1.0bn	4,410	5,837	+1,427
£2.5bn	11,026	14,594	+3,568
£5.0bn	22,052	29,187	+7,136

Table 5: Jobs supported under converted-demand scenarios

Annual public demand converted by year five	GVA if won by large incumbent suppliers	GVA if won by small challenger suppliers	Direct GVA differential
£1.0bn	£463m	£520m	+£56m
£2.5bn	£1.16bn	£1.30bn	+£140m
£5.0bn	£2.32bn	£2.60bn	+£281m

Table 6: GVA supported under converted-demand scenarios

The interpretation is precise. Under this model, converting £5 billion of relevant public demand from a large-incumbent pathway to a small/challenger pathway would support around 7,100 additional job equivalents and around £281 million more direct GVA than the large-supplier counterfactual. That is not because the model assumes small firms are more productive. It assumes the opposite on a per-worker basis. The differential arises because small employing firms are more employment-intensive per pound of turnover.

These are direct supplier-side estimates, not whole-economy net impacts. They do not include wider dynamic effects such as follow-on sales, investment, exports, innovation spillovers or productivity gains from public-sector adoption. Nor do they account for capacity constraints, import leakage or the possibility that some smaller suppliers would subcontract back to larger firms. Those effects should be analysed separately.

The model is therefore best read as a conservative direct-impact comparison. It shows that changing who can access relevant public demand may alter the distribution of jobs and GVA supported by procurement, even before wider growth effects are considered. The stronger policy case is that public procurement can help smaller and younger firms gain revenue, credibility and reference customers in high-value markets. But the direct model does not need to assume that. It only shows the measurable difference between supplier pathways using official employment, turnover and GVA-per-employee data.

International comparison: what the UK can learn

The strongest international lesson is that startup procurement works best when it is treated as a pathway, not a slogan. Countries that use public demand more effectively do not simply tell buyers to work with small firms. They create structured routes through which young companies can move from public problem, to feasibility, to prototype, to operational testing, to paid adoption.

The UK has parts of this system already. SBRI, Innovate UK, challenge programmes, testbeds, Find a Tender, the Central Digital Platform and the Procurement Act 2023 all provide useful components. The weakness is that they do not yet add up to a coherent startup procurement pathway. Innovation funding can sit apart from procurement. Pilots can sit apart from budgets. Procurement platforms can publish opportunities without helping buyers discover new suppliers. SME targets can improve visibility without showing whether young firms are entering or scaling through public markets.

International comparison is useful only if it is precise. The lesson is not that the UK should copy another country wholesale. Procurement systems reflect different legal frameworks, market structures, state capabilities and industrial priorities. The relevant question is narrower: which mechanisms help young firms move from capability to public-sector revenue, and which of those mechanisms are missing or underdeveloped in the UK?



Country or system	Relevant mechanism	What it shows	UK implication
United States	SBIR/STTR ¹⁰ and federal small-business contracting goals	Public missions can be linked to phased funding, agency demand and award data.	The UK needs clearer routes from feasibility and prototype funding into procurement and follow-on adoption.
Canada	Innovative Solutions Canada and Pathway to Commercialization ¹¹	Testing can be connected to a route through which government departments can buy successfully tested innovations.	UK pilots should be designed with budget ownership, adoption criteria and procurement route from the outset.
European Union ¹²	Innovation procurement, pre-commercial procurement and strategic procurement rules	Innovation depends on how buyers define value, not only on whether rules permit competition.	UK reform needs to strengthen quality-based evaluation, buyer capability and lotting, not only simplify process.
Estonia	X-Road ¹³ and digital public infrastructure	Common technical infrastructure lowers integration costs and reduces dependence on bespoke systems.	Startup procurement should be linked to standards, interoperability and reusable public-sector components.
Singapore	Open Government Products ¹⁴ and public-sector product capability	The government can build stronger internal capability to define, test and scale digital products.	Public bodies need product, technical and market-assessment capability to buy innovation well.
South Korea	KONEPS ¹⁵ , Innovation Marketplace and Venture Nara	Procurement platforms can support visibility, entry and supplier discovery, not only compliance.	Find a Tender and the Central Digital Platform should become market-access tools, not just publication systems.
Israel ¹⁶	Mission-led innovation and venture-market formation	Public demand, R&D, finance, exports and strategic sectors can reinforce one another.	Procurement should be connected to missions, innovation finance and industrial strategy, especially in deep tech and dual-use markets.

Table 7: International learnings for building a startup procurement pathway

¹⁰SBIR

¹¹Government of Canada – Pathway to commercialization

¹²European Commission – Public procurement innovation

¹³X-Road

¹⁴Open Government Products

¹⁵PPS

¹⁶Innovation Israel

United States: phased innovation funding linked to agency demand

The United States offers the clearest example of a staged innovation pathway. SBIR and STTR are not conventional procurement programmes, but they are highly relevant because they create an organised route for small technology firms to work on public mission needs before they are ready for mainstream contracts.

The model matters for three reasons. First, demand is agency-led. Federal agencies define topics linked to their missions, rather than funding innovation in the abstract. Second, funding is phased. Phase I supports proof of concept, Phase II supports technology development, and Phase III is intended to move towards commercialisation, including sales into federal markets. Third, the programme is visible and data-rich, with searchable award data and agency participation.

The UK should not simply replicate SBIR/STTR. The US federal market is larger, the agency structure is different, and SBIR/STTR sits within a different R&D funding system. But the pathway logic is directly relevant. A UK startup procurement model needs clearer transition points between public problem definition, feasibility funding, prototype development, operational testing and paid adoption. Without those transitions, challenge funding risks producing isolated experiments rather than supplier growth.

The US small-business contracting regime also shows the value of targets when they are attached to reporting. Federal agencies are assessed against small-business goals, and government-wide performance is published. The lesson is not that the UK should import the same targets. It is that

measurement changes behaviour. If the UK wants young firms to access procurement, it needs to measure young-firm participation directly rather than relying on broad SME categories.

Canada: testing with a route to commercialisation

Canada's Innovative Solutions Canada is particularly relevant because it addresses one of the most common weaknesses in innovation procurement: the gap between trial and purchase.

The programme uses challenge and testing mechanisms to connect government needs with SME innovation. Its Pathway to Commercialization is the key feature. Eligible SMEs that have successfully completed testing and meet readiness criteria can be placed on a source list for up to three years, allowing government departments to browse and purchase successfully tested innovations.

This is not a perfect model. It still requires assessment, departmental demand and procurement discipline. It does not guarantee that every tested innovation becomes a contract. But it makes the post-test pathway visible. That is the critical point.

The UK should apply this logic to its own pilots, testbeds and challenge programmes. Before a pilot begins, the public body should be able to answer four questions. Who owns the problem? Who owns the budget? What evidence would justify adoption? What procurement route would allow adoption to happen? If those questions cannot be answered, the pilot may still generate learning, but it should not be presented to startups as a credible route to market.

European Union: innovation depends on how buyers define value

The EU experience shows that innovation procurement is not just about opening competitions. It is about what buyers are encouraged and equipped to value.

EU rules allow public buyers to use procurement strategically, including through innovation procurement, pre-commercial procurement and quality-based award criteria. In principle, this creates space for better solutions, lifecycle value, technical merit, environmental performance and wider public outcomes. In practice, public buyers still often fall back on price-led evaluation, procedural caution and familiar suppliers.

This matters for startups because young firms rarely win by looking like cheaper versions of incumbents. They are more likely to compete through technical novelty, better user experience, faster deployment, better data, automation, modularity or new service models. If evaluation is dominated by lowest upfront price, or by evidence requirements that only incumbents can meet, innovation procurement will remain underused even where the rules permit it.

The UK implication is that procurement reform cannot stop at process simplification. Buyers need better methods for assessing quality, risk, lifecycle cost, interoperability, user value and productivity. They also need the confidence to divide requirements into lots where appropriate, run pre-commercial procurement where no mature solution exists, and use public procurement of innovative solutions where a product exists but is not yet widely adopted.

Estonia: digital infrastructure as market access infrastructure

Estonia's X-Road is relevant because it shows how digital public infrastructure can reduce the cost of selling into the state. Its importance is not that it is a procurement programme. It is that it changes the technical environment in which suppliers operate.

Fragmented public systems favour large incumbents. Where each department or local body has different standards, interfaces, data models and assurance processes, young firms face high integration costs before they can prove value. Common digital infrastructure changes those economics. It allows suppliers to build against clearer standards, integrate more easily and serve multiple public-sector contexts without redesigning from scratch.

The UK has made progress on digital standards and shared components, but the procurement implication is still underdeveloped. Startup-friendly procurement is not only about contract terms. It is also about the architecture into which products must be sold. Common APIs, reusable identity and consent components, clear data standards, documented integration routes and modular architectures would all make government easier to supply.

This is also a buyer-risk issue. Standardised infrastructure makes it easier to compare suppliers, test products, switch providers and avoid lock-in. It helps public bodies buy from younger firms without taking on unnecessary integration risk.

Singapore: buyer capability matters

Singapore's Open Government Products shows the importance of product and technical capability inside the state. The lesson is not that every government should build everything itself. The lesson is that public bodies buy better when they understand the products, users and technical trade-offs involved.

Innovation procurement often fails before the tender is published. Public bodies may understand the policy problem but struggle to translate it into a product brief, user need, technical requirement, test environment or fair evaluation process. The result is vague specifications, excessive documentation, requirements written around incumbent delivery models, or pilots that cannot scale.

The UK needs more product-literate procurement. Public bodies buying startup-relevant solutions should have access to product managers, technical assessors, service designers, data specialists and market analysts. This capability does not replace procurement expertise. It strengthens it. It helps buyers define problems better, judge technical claims more intelligently, and avoid using balance sheet strength or previous public-sector delivery as crude substitutes for capability.

South Korea: procurement platforms can shape markets

South Korea's KONEPS demonstrates how procurement infrastructure can go beyond publication and compliance. It operates as a single window for public procurement, with supplier registration, tender information, bidding, contracting and payment integrated into a national e-procurement system. South Korea has also developed innovation-oriented routes such as Innovation Marketplace and Venture Nara, which are intended to improve visibility and early market access for innovative and venture companies.

This is directly relevant to the UK. Find a Tender and the Central Digital Platform should not be treated only as places where notices are published and compliance data is recorded. They could become tools for market discovery, demand signalling and supplier progression.

A more strategic platform would help buyers understand which young firms are active in relevant categories, which suppliers have completed pilots, which products have been tested, which dynamic markets are open, and which opportunities are startup-suitable. It would also help policymakers see whether reforms are changing market structure, not merely increasing transparency after the fact.

The UK should therefore think about procurement data as market infrastructure. If data is only collected for compliance, it will not help young firms enter. If it is used to map markets, signal demand, track supplier progression and identify barriers, it can become part of the growth system.

Israel: connect procurement to missions and finance

Israel is not primarily a procurement comparator. Its relevance lies in the way innovation, finance, public missions, exports and strategic sectors interact. High tech plays an unusually large role in the Israeli economy, and public policy has long treated technology capability as a strategic asset.

The lesson for the UK is that procurement should not sit apart from innovation policy. In sectors such as cyber security, defence, health security, critical infrastructure, emergency response, data infrastructure and dual-use technology, the state is often a buyer, regulator, validator and mission-setter at the same time. Public demand can therefore do more than purchase a product. It can help create trust, validate use cases, pull technologies through difficult early markets and support later private investment or export growth.

For the UK, this means startup procurement should be connected to industrial strategy and mission-led policy. If the government wants stronger domestic capability in AI, cyber security, clean technology, health innovation, defence technology or public-sector productivity tools, procurement has to be part of the operating model. R&D funding without adoption pathways will not be enough. Procurement reform without connection to finance, regulation and export support will also be weaker than it should be.

Cross-cutting lessons for the UK

Across these examples, the same pattern appears. Startup procurement works when public systems reduce uncertainty at each stage of the pathway.

Young firms need to know where public demand exists, how to enter the route, what evidence is required, how risk will be staged, how pilots can become contracts, and how a first customer can lead to wider adoption. Public buyers need tools to manage risk without defaulting to incumbents: clearer problem statements, smaller lots, phased contracts, technical assessment, test environments, dynamic routes, prompt payment and reliable supplier data.

The UK should therefore move from isolated startup-friendly measures to a full startup procurement pathway. That pathway should include:

- » supplier-age measurement, so startup access is not hidden inside broad SME data;
- » startup-suitable category mapping, so reform focuses on markets where young firms can credibly supply;
- » open-entry and dynamic routes, so new suppliers can join as markets develop;
- » staged contracts, so buyers can test capability without overcommitting too early;
- » commercialisation pathways, so pilots have a route to paid adoption;
- » stronger buyer capability, so public bodies can assess technical and product quality;
- » procurement data infrastructure, so the government can track entry, bidding, awards, payment and follow-on adoption.

The international lesson is not that the UK lacks examples to learn from. It is that the UK has not yet assembled its own components into a coherent route from public need to startup growth. That is the gap a pro-startup procurement reset should close.



Conclusion

The case for a pro-startup procurement reset is ultimately a case for changing how public demand is organised. The UK has spent years improving procurement process, transparency and SME access, but the next stage needs to be more deliberate: building a pathway through which young firms can move from public problem, to tested solution, to paid adoption, to repeatable market access.

The international examples point in that direction. The United States shows the value of phased routes linked to agency missions. Canada shows the importance of connecting testing to commercialisation. Estonia shows that common digital infrastructure can lower the cost of supplying the government. Singapore shows that public buyers need product and technical capability, not just procurement compliance. South Korea shows that procurement platforms can support supplier discovery and market visibility. Israel shows that public demand is most powerful when it is connected to missions, finance, exports and strategic technology sectors.

The UK does not need to copy any of these systems. It needs to assemble its own. That means moving from fragmented startup-friendly activity to an operating model that connects innovation funding, procurement routes, buyer capability, digital infrastructure and market intelligence. At present, those pieces exist, but they do not reliably join up. SBRI and challenge programmes can fund promising solutions without creating a route to adoption. Frameworks can make buying faster for known suppliers while narrowing entry for emerging ones. Find a Tender and the Central Digital Platform can publish opportunities without yet functioning as tools for discovering young suppliers, tracking progression or signalling future demand.

The next phase of reform should therefore be practical. The government should identify the categories where young firms are credible suppliers and where public demand could be opened without weakening delivery standards. In those categories, it should redesign routes to market: smaller and more modular lots where appropriate, dynamic or regularly refreshed routes, staged contracts, proportionate qualification, clearer problem statements, stronger feedback, prompt payment and explicit pilot-to-contract pathways. These are not special measures for startups. They are better ways of buying in fast-moving markets.

The modelling in this report supports that direction without making exaggerated claims. It does not assume that startups or smaller firms automatically generate more value than incumbents. It compares supplier pathways using official employment, turnover and digital-economy GVA data. The model shows that routing relevant demand through small challenger suppliers can support higher direct employment intensity and a positive direct GVA differential compared with a large-incumbent pathway. That is not a full account of the economic prize. It is a grounded indication that changing market access can change the economic profile of procurement spend.

A first public-sector customer can help a young firm prove its product, build credibility, attract investment, win follow-on customers and enter export markets. That is why procurement matters differently from grants or pilots. A grant can support development. A pilot can test feasibility. A contract creates a customer. A repeatable route to contracts creates a market.

A serious startup procurement pathway would have five linked components. First, direct measurement of young-firm participation, including supplier age, size, route to market, contract value, payment performance and follow-on adoption. Second, startup-suitable category mapping, so reform is concentrated where young firms can

credibly supply. Third, open-entry and staged procurement routes, so firms can enter as markets evolve and buyers can manage risk incrementally. Fourth, stronger public-sector product and technical capability, so buyers can define problems and assess solutions intelligently. Fifth, a commercialisation pathway that connects pilots, testbeds and innovation funding to paid procurement.

The test of reform should be simple, and ultimately seek to understand whether a credible young firm sees the opportunity, accesses the route, meets proportionate requirements, bids on a realistic lot, understands the evaluation, gets paid on time, and moves from successful delivery to follow-on adoption. If not, the market may be open in conceptual terms, but it is not open in practical terms.

A pro-startup reset would make public procurement more contestable, more intelligent and more aligned with the markets the government says it wants to build. It would not replace incumbents where they are the right suppliers. It would stop defaulting to them where younger firms could deliver better, faster or more specialised solutions. The aim is not to tilt procurement away from value for money. It is to recognise that value for money in innovation-relevant markets depends on contestability, learning, supplier diversity and the ability to adopt better solutions over time.

The UK should build a measured, staged and commercially credible startup procurement pathway, connected to public missions and backed by the data needed to manage it. Without that, startup access will remain hidden inside broad SME reporting and innovation activity will continue to leak away before adoption. With it, public procurement can become what it should already be: a route through which public problems create markets for better solutions, and through which young UK firms gain the customers they need to scale.

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