

Supply Chains – an overview of trends, good practice, and ideas for consideration

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The Insights & Economics Team was asked to explore the extent of activity SMEs have in the supply chains of large businesses, and what could be done to strengthen their ability to benefit from the opportunities presented by global supply chains.

Methods

A series of discussions with colleagues from across Scottish Enterprise, and with individuals in Invest Northern Ireland, and the Department for Business, Energy, and Industrial Strategy (BEIS) were conducted. It is recognised more colleagues would have had insights relevant to the subject, but the number of discussions were deliberately limited to provide insights for management in a timely manner. Interviews were curtailed once over a string of consecutive interviews with individuals having different roles, the same themes continued to emerge. This gave assurance to the credibility of the insights for a project of this scope.

Summary of main points

- There are many barriers for SME entry into global supply chains, which are forever evolving and difficult to navigate from an entry and supporting entry perspective.
- One of the most recent trends in supply chains has been a desire from larger businesses to outsource the management of the supply chain to Tier 1, medium-sized businesses. This offers significant potential to embed supply chains locally.
- However, Scotland has a **long-standing challenge in creating growth into the medium-sized business** bracket, which may mean opportunities go elsewhere.
- There are **fewer 50-249 employee manufacturing businesses in 2022 than in 2010**. The biggest growth in number was in 0 employee and 1-4 employee businesses. This trend highlights the 'missing middle'.
- However, there are signs **of those that exist, the 50-249 employee Manufacturing businesses are showing signs of strong growth**. While there are fewer businesses, and less employees in 2022 than in 2010, turnover has risen steadily from £6.8bn to £9.9bn in 2022. But the pipeline for more of these is small and receding in size over time, as is the future small business cohort which are equally important.
- To deliver success which includes supply chain readiness, the evidence suggests **the goal should be for SE to become/remain a trusted, credible, and independent intermediary**, to reduce risk barriers and perceptions, and enable both the large(r) and SME businesses to achieve beneficial economic objectives.
- There are **three** components that need to come together to work effectively to be able to respond to opportunities, including in supply chains as they arise over the short to the long term:
 1. With the demand side, most often **global businesses, the focus needs to be on opportunity development** – anchoring high-value activity and securing spillover benefits for the wider economy. This needs to be **rooted in strong relationships**.
 2. Secondly, the global relationships need to compliment, and be deployed where necessary, alongside the ongoing activities of those **working with SMEs to raise their capabilities**, encouraging business development, via investing, innovating, and growing – creating more medium-sized businesses willing, capable, and able to take advantage of growth opportunities – which will include supply chains.
 3. The critical element – the 'glue' that binds this together to be effective **is in-depth, industry and sector knowledge amongst advisors/those supporting businesses**. This adds **independent expertise** which gives credibility at the global and SME/MSB level, reducing the risk perception for both.

Global economic shifts and wider context

At its core each supply chain is a series of relationships, predominantly between larger global businesses (the *demand* side), and the smaller SME business (the *Supply* side). This also exists SME to SME, but the general point of understanding is of two entities often within a size scale, one supplying another.

At the core of each of supply chain, the goals and drivers are to deliver faster and at more efficient cost (underpinned by quality), usually driven by the (larger) demand side. There may be factors driving this such as legislation, regulation, consumer behaviours and demands, but ultimately, it is still the demand driving the opportunities (either existing or new). For the supply side, the goal is to maximise their added value as this is linked their overall importance in the supply chain and the influence they hold.

However, over recent years, amplified since 2020, other considerations are starting to emerge. It was noted these remain tentative trends and as the post-Covid era continues, they may fade away. The main three of note highlighted were:

- *Closer to home/local suppliers* – this boils down to the guarantee of delivery.
- *Reduce carbon footprint* – Linked to this, the reduction of distance travelled reduces the environmental footprint of the supply chain, a new mainstay driver for businesses.
- *Multiple suppliers* – this was the least frequently mentioned of these recent trends¹. It is linked to (but often separate) to closer geographic proximity and reflects the same driver – shipping uncertainty, rising costs, and delays, but with a response not to simply reshore domestically, but to find alternative suppliers and spread risk out. This is very small trend. Most businesses on the demand side do not look for dual and triple suppliers, and in many industries where long-term development is needed and product lifespans run into the decades, it is not uncommon for lifetime contracts to be preferred.

Barriers to entry

All businesses have an approach (a core set of behaviours and outlook) to supply chains, whether this be a process such as those employed by large businesses, or an ad hoc, *as and when needed*, look online to source approach, more prevalent among smaller businesses.

So, for many SMEs (on the supply side), entry into global supply chains is not something they see as a priority, or even realistically contemplate. They are interested in so much as they are in any opportunity, but supply chains (especially global) are also seen as a risk, a greater risk and one in which the *stepping into the unknown* gets balanced against the *tried and tested*, proven activities.

Whilst it was noted that events of recent years may have “*woken some (SMEs) up*” from a perceived complacency and a (relative) comfort zone and made them realise or see the need to try and achieve more. However, for many others it has forced them (equally understandably) to withdraw, retreat, and focus on survival mode considering these challenges.

On the Demand side, further barriers and behaviours exist which add to the risk perception for SMEs, although the drivers of these are also centred around risk – but from their perspective.

For example, one of the common themes among larger businesses is a preference to work with existing suppliers on issues before considering alternatives. For them, the time and resource investment to find alternatives is often too large and risky. They do not consider looking for alternatives to existing suppliers unless necessary, so whatever alternatives are available from other SMEs is largely irrelevant unless there are huge imperatives to find a replacement supplier.

¹ Literature suggests this is more talked-about than an actual trend, due to the complex nature of supply chains, contracts, ability to build, provide goods/services, and IP and certification ownership, particularly in higher-value manufacturing.

If the preference is to work with existing suppliers, the barriers to entry become higher and thus make the time and resource investment from the SME, a greater risk with a smaller chance of success, and potentially taking focus away from existing customers in pursuit of potential new customers. In addition, it adds the concept of timing and 'luck', as SMEs will not know when existing supplier issues exist and larger businesses are potentially seeking substitutes in order to ensure they are considered, adding to the risk of wasted time, effort, and resource².

This also surfaces a further 'challenge'. Businesses on the demand side, especially large global ones, who don't truly understand SMEs and how they operate are often vague, non-committal and non-specific about what they need or are seeking. This makes the barriers for SMEs higher (than they already are perceived to be and are) because they are unclear as to what is needed, to consider and invest time and resources in striving to produce solutions.

Supply chains have a continuous downward pressure from the larger, demand side businesses to seek to reduce the costs on *them*, which means on the supply side, competition is fierce, margins can be thin and are constantly under pressure to be trimmed, for the margins on the demand side to remain healthy/improve. Being part of one, for SMEs, remains an ongoing challenge to remain competitive, making the attractiveness of being part of supply chains is not as great as might be perceived from the outside.

Whilst some SMEs can enter and then expand their footprint in supply chains, this is not automatic nor easy because expanding supply chains footprint means expanding the pressure to constantly reduce costs and realise efficiencies without comprising quality, delivery, and standards. The potential for 'more' often comes with an ask to reduce costs on the existing contractual arrangements. In many ways, it might not simply be worthwhile.

In many areas, several aspects are hard for Scottish/UK businesses to compete on, such as, labour costs. However, Scotland/UK has strengths such as quality, security of supply, to counterbalance this towards domestic suppliers. But cost pressures are constant and persistently increasing, squeezing the value from any advantages Scottish SMEs may have in areas such as quality, security, etc. This is particularly the case during tighter economic times, which are additional challenges for SMEs faced with existing challenges on rising costs, inflation, wage pressures, etc.

Downward shift in supply chain management and the missing 'middle'

The Supply side should not be thought as one homogenous group of SMEs. There are two broad groupings, and this became increasingly emphasised during the research. There are:

- The Tier 1 (T1) suppliers – who tend to be medium in size³.
- The Tier 2 (T2) suppliers – the small, micro businesses (often family businesses)⁴.

The importance, and growing importance of the T1 medium-sized businesses (MSBs), was emphasised. This is because one of the larger trends being seen globally is, as a further pressure related to cost reduction/efficiencies, for demand side businesses to seek to push the management of supply chains away from them and onto these medium-sized businesses to manage the supply chain for them.

The problem is evidence has consistently demonstrated that arguably the main long-term business growth challenge for Scotland (and the UK) is a lack of MSBs which may mean there are missed opportunities to access the management of these supply chains considering this downward shift⁵.

² These points were expressed in a recent study commissioned by SE ([A Review of Supply Chain Initiatives Supporting High Value Manufacturing in Scotland](#), Optimat, November 2021).

³ Tier 1 businesses are generally the largest or the most technically capable in the supply chain.

⁴ Tier 2 are key suppliers to Tier 1 businesses, and Tier 3 are usually those enabling Tier 2 businesses to supply Tier 1.

⁵ Existing evidence highlighting this is summarised in Appendix A.

The motivation behind passing down the management of the supply chain, is primarily about creating efficiencies for the larger businesses. But it also passes down all aspects to the medium-sized business, such as managing relationships, investing in manufacturing and skills, all of which adds pressure, hence it requires those with the size, ambition, credibility, and resource to absorb this and to succeed in the management. In short, this role requires a continuous investment and improvement plan being embedded, in order to manage the relationships, deliveries and the ongoing pressures placed on them.

As a result, and partly due to the relative lack of numbers of management willing and capable MSBs, long-term contracts are used, which provides the incentive to invest and the assurance to do so. However, it locks out other businesses for the length of this contract.

In manufacturing this is a global process, so Scottish SMEs are not competing just against themselves. A lack of MSBs means opportunities go elsewhere.

This has negative consequences, as the T2, T3 opportunities available from managing the supply chains domestically, also go elsewhere⁶. In addition, of those existing MSBs, because of the relative lack of the number of these, those that exist are usually embedded in supply chains and are performing well⁷, often with a single major contract responsible for a significant proportion of their revenue. This means the risk in seeking to do more is too high.

Improving SME capability to consider supply chains as a route to growth

Capability is often spoken of as the start – when the reality is capability should be the end goal and sign of the business being ready for anything that can fulfil its growth potential/ambition.

This downward shift in supply chain management onto SMEs has changed how large businesses assess their suitability. Like most large organisations of any kind, scorecard matrixes are used. They score on *Quality* (specification etc), *Cost* (including the ability to drive further efficiencies), and *On-Time Delivery* (relatively self-explanatory, but remember within this, recently has become a greater interest in the 'local' to ensure no issues arise with supplementary sustainability benefits).

But a more recent inclusion is an assessment on *Management*. This reflects a growing understanding of the importance of management. This score is about attitudes towards risk, towards growth, towards investment, towards talent development, and crucially, approach to collaborate/problem solve/build relationships with other businesses.

Despite this, the tendency to focus most time and effort on existing suppliers continues. Supply Chain Managers disproportionately spend most of their time on the At-Risk SME suppliers, simply because they give them the problems requiring immediate solutions.

Ideally, and this is acknowledged at business level when pushed by Government, these Supply Chain Managers would spend more of their time working with the *Good* businesses, to help them progress and improve rather than looking for new suppliers. They understand that over the medium-term this would serve everyone's benefits, because it would stimulate more willing and capable MSBs which helps both larger businesses, SMEs and those seeking to improve the economic performance of nations. But commercial demands and pressures come first.

The average SME comes from a risk perspective, and to be successful, it needs the *will* (i.e leadership), the *time*, and the *money* to get there. SMEs grind daily to fill and then fulfil their

⁶ Should more small businesses emerge into the 'missing middle', it will be critical for new small businesses to emerge to replenish the stocks becoming medium-sized, but also to become tomorrow's mid-sized businesses. See Appendix A for more.

⁷ As the evidence in Appendix A related to [Manufacturing businesses in Scotland](#) (of the 50-249 employees range) suggests is the case. Albeit it at the UK-level, OECD analysis of [Trade in Value Added](#) shows that the UK has the best performing manufacturing industry for embedding domestically generated value in its own exports, as well as the exports of other nations (who receive UK exports and add to these, and then export themselves). 70% of the value of UK manufacturing exports was added in the UK in the latest annual figures, and this is down from over 80% in 1995 (when data first available).

order books. Feedback is that for many, this stretches their limits of machinery, manpower and serves as the limits of their potential especially in challenging economic times.

Data is hard to find, but feedback suggests a demographic challenge exists in leadership amongst manufacturing businesses that might be those anticipated to seek to access supply chains and undertake business growth programmes. Leadership is older and is more likely to be thinking about exiting or retirement than a significant investment programme to take the business on a new growth trajectory. It is important to note, however, this reluctance may not simply be demographic. There are many well-known barriers to growth which continue to persist, such as appetite for taking on external funding for investment in new machinery, as well as in innovation/new products.

Concluding points and suggestions for consideration

In response to the evidence, there are **three** key components that need to come together.

The goal should be for SE to become/remain **a trusted, credible, independent expert intermediary, through reducing risk barriers and perceptions, to enable both the large(r) and SME businesses to achieve beneficial economic objectives.**

Firstly, with working alongside the demand side, most often global businesses, the focus needs to be on opportunity development for the benefit of the Scottish economy - on anchoring high-value activity and securing spillover benefits for the wider economy through bringing in skilled, able and willing SMEs to work with global businesses. This needs to be rooted in strong relationships.

Achieving this status then means being able to encourage them to consider new opportunities for domestic SMEs, but also being trusted to have early sight of plans, ideas, activities, and their drivers so the SME base can be given this concrete and detailed information to prepare. This information reduces the risk rather than talking in hypotheticals and 'opportunities' without any specific details accompanying them.

Examples cited have proven SE has gained this trusted advisor status, with strategic relationships at the management/senior level, rather than simply focusing on a transactional relationship, (and bringing in capable, proven SMEs to fill a need arising through relationships globally)⁸.

Secondly, these relationships need to compliment and be deployed alongside the ongoing and emerging activities of those working with SMEs to raise their capabilities⁹.

From the SME perspective, it is not about entering supply chains alone. It is a wider perspective which encourages business development, via investing, innovating, and growing – which creates more medium-sized businesses willing, capable, and able to take advantage of growth opportunities – which will include supply chains.

One suggested approach to embed supply chains into an overall programme for business growth development is to think not of supply chain preparedness, but instead think of supply chain *readiness* (akin to Financial Readiness). Focusing solely on supply chain development heightens the risk for businesses (as it places all 'eggs in this one basket') as the above evidence details.

Taking SMEs on a growth development programme, means they find their 'best' fit, and serves to motivate and guide ongoing development because the SMEs and their leadership can see

⁸ Appendix B detailed an example around subsea industry development with Japan, serves as an example of how this can come together. Another example is the Boeing Strategic Partnership, completely different in nature and evolution, reflecting individual industry circumstance, but both are rooted in deep industry knowledge, credible relationships and demonstrable abilities and appetite in the SME base.

⁹ Such as the ['Manufacturing Excellence'](#) pilot being operated by SMAS.

the next step *and* the end goal. The Invest NI approach with SC21 highlights the motivation of a scale/guide for readiness, leading ultimately to preparedness for opportunities for growth, including supply chains at their own pace, giving a greater chance of success¹⁰.

Scotland's challenge is to find, stimulate, and create more capable SMEs and MSBs to plug the missing middle. The evidence suggests Scotland has a core of emerging MSBs in manufacturing¹¹ who might be able to be supply chain managers (or if they already are, serve as examples to others, and conduits to opportunities at the T2 and T3 level within Scotland). This proves it can be done, but having many more of these, should remain a central goal.

All these opportunities (growth or supply chain specific) sit within a global environment. Other nations see the same possibilities as Scotland and may be better placed to grasp specific industry and sector opportunities with SMEs capable and willing *now*. Having expert understanding of industries from the global drivers and trends to the capabilities of the SME base should be key to identifying the true opportunities which Scotland is best placed to seize now, and which need to be prioritised for future benefit. Given the fluid nature of supply chains, embedding supply chain readiness in a growth programme can uplift the capabilities amongst the SME base to be ready, able, and willing whenever any opportunity they perceive they can succeed in, arises¹².

This could include through (for Scotland) innovative means such as acquisition, joint ventures, etc. With the lack of MSBs being a long-standing structural challenge for Scotland as new and pressing opportunities are emerging with considerable international competition for these exact same opportunities, such bold steps may be necessary to consider, albeit they do come with considerable risk.

The third aspect, the 'glue' that makes the other two aspects come together, and succeed is in-depth, industry and sector knowledge existing within SE. This level of expertise adds credibility at both the global and SME/MSB level and serves to reduce the risks of opportunities on both sides, because it demonstrates and enables both to utilise the knowledge and understanding of the different perspectives, and how these impact on their needs and risks.

Understanding the global landscape and its detail and nuance through deep timely industry knowledge provides the opportunity to bring together the SME and global sides, so the right opportunities are pursued by the right businesses in the right way to deliver success.

The above three-pronged approach will never eliminate all risk (supply chains will still be determined by global drivers and factors, will remain a commercial process, etc) which is why it needs to be a wider, economic development goal, in which sits supply chain readiness.

For an economic development agency, having links into the global players and possessing credible expertise in these industries, combined with a deep knowledge of global markets and trends, can help make a difference to bring opportunities to established, capable and willing SMEs, on their way to becoming medium-sized.

¹⁰ This also provides, in areas like Aerospace and Defence, an assuredness to larger businesses around the commitment of the SMEs to working effectively and of its standards and quality. Feedback from colleagues in Scotland have also highlighted the commitment from prime businesses in Northern Ireland to the SC21 programme gave incentives to SME engagement with SC21 in that nation. This did not occur in Scotland or Wales, due to the lack of commitment to SC21 amongst prime businesses, which acted as a disincentive to SME engagement with SC21 i.e., there was no reason to do so.

¹¹ As the evidence in Appendix A related to [Manufacturing businesses in Scotland](#) (of the 50-249 employees range) suggests.

¹² This also aligns with the philosophical approach of the model operated by Invest NI. See Appendix C for details. It also potentially could overcome an issue raised about the inflexibility of existing initiatives being established to run over a specific timeframe in response to opportunities. Opportunities which are liable to change impacting their applicability, likelihood of success and views of SMEs before, and after, around support such as this. It may also help declutter what SMEs consider as a crowded landscape which makes it challenging for them to navigate and to understand which will be of most value for them to invest their limited time and resource ([A Review of Supply Chain Initiatives Supporting High Value Manufacturing in Scotland](#), Optimat, November 2021).

Appendix A – Summary of demographics, growth, and manufacturing trends

Demographics

Analysis of the [growth in the business base](#) of the UK's nations and regions highlights that consistently **Scotland is the worst in the creation of 50-249 employee businesses**. This is despite the early half of the 2010s seeing Scotland performing strongly in business creation – across all areas (those without employees, but also those with employees of 1-9 and 10-49).

This performance has not continued, and Scotland's growth in micro and small businesses has deteriorated over time, and that initial strong performance in the early 2010's has, as yet, has not seen progression further into higher growth into larger subsequent size brackets.

Also worth highlighting is Scotland has always been amongst the strongest in the UK's regions and nations post-2014 for the creation of zero employee businesses. This highlights a growth challenge at two levels – taking on employees, and then growth into the medium-sized.

Can then say that as a % of the business base, Scotland has lower % of MSBs than other parts of the UK? Anything can say on how well existing MSBs are doing in terms of supply chain opportunities? Should we focus on the MSBs we have? Is there a view that even for the current MSBs we have, supply chain opportunities are being missed?

Growth businesses

[Analysis for the period of 2011-16](#) explored trends beneath the high-bar set to measure high-growth. It found the prevalence of growth 'bottlenecks' in Scotland, to a much greater extent than in the rest of the UK (used to provide context).

These bottlenecks corroborate the above, and were in:

- a. *Achieving one year medium or high growth*. Only 7% of companies in Scotland achieved *and* sustained 10%+ turnover growth in one year against 26% in rUK.
- b. *Sustaining growth, especially sustained high growth*. 14% of all growth companies achieved further higher growth compared to 37% in rUK. Only 3% of all £1m- £70m companies in Scotland sustained high-growth, vs 18% in rUK.

This results in high growth being most common in smaller, younger companies (of less than £4m in turnover). The bottlenecks emerge among £5m-£10m companies which means Scotland has a greater percentage of its growth businesses with turnover under £5m compared to rUK, and a lower proportion in *every* subsequent bracket.

More [recent analysis has shown a positive shift](#). More businesses in Scotland are achieving and sustaining higher growth in 2016-20. The gap to rUK has got smaller, but still exists.

This means despite having a strong entrepreneurial and start-up system (see for examples, [this](#) and [this](#)) there is an inability to sustain high-growth performance, leading to a clearly long-standing shortfall of MSBs which are central to realising the economy's growth potential, not least of which because evidence points to MSBs being more productive, innovative, international and with better working practices, and thus more able to exploit supply chain opportunities.

Medium-Sized Businesses (MSBs)

[Analysis of MSB performance and trends](#)¹³ shows since 2010, there has been continued growth in the number and reach of MSBs in Scotland. MSBs in 2021 accounted for 1.3% of all registered businesses, generating 15.9% of all employment, and 23.7% of all turnover.

¹³ Note this analysis continues to use the initial £25m-£499m bracket, for consistency purposes. There is merit in revising the brackets for analysis in order to better reflect the business base. However, this has been considered and rejected to date, because it is believed with ambitious targets and aspirations for the economy and its business base, a more stretching definition of MSBs contributes more towards understanding of the realisation of these targets. This revision remains under constant consideration when data is updated annually.

Scottish-owned MSBs have consistently grown, but this growth has been outpaced by the growth in overseas-owned MSBs, in turnover and employment, across most industries. Scottish MSBs have become smaller on average, over time, in turnover and employment. This suggests the growth in new MSBs has been businesses meeting the minimum threshold for this analysis, and existing MSBs have not grown as quickly to offset the new entrants to the MSB market being smaller, corroborating the above evidence.

Within this, Manufacturing MSBs appear to be a strength, with strong performance of domestic owned MSBs (compared to other industries where growth is overwhelmingly driven by overseas owned MSBs). The evidence suggests though, that the Scottish MSBs are smaller, but have shown potential and appetite to grow, breaking through growth barriers.

Manufacturing businesses

Analysis of the [latest data around Manufacturing in Scotland](#) corroborates the above point. There are signs of an emerging successful cohort of medium-sized manufacturing businesses.

However, there remains the consequences of the growth blockages. The only substantial change in number of manufacturing businesses was in sole traders (0 employees) which rose from 7,675 in 2010 to 10,630 by 2022. The second largest growth in number of businesses was in 1-4 employees (rose to 3,070 from 2,770 in 2010).

There are also fewer 50-249 employee and 20-49 employee manufacturing businesses in 2022 than in 2010.

Despite this highlighting the impact of the growth blockages, as mentioned, Manufacturing is emerging from data as a relative strength. At the 50-249 employee range, there is an indication of growth performance. While there are fewer businesses, and fewer employees, turnover has risen steadily from £6.8bn to £9.9bn in 2022 (after a slight decline from 2021).

Which then helps us see that:

- a. the 50-249 group are not only those showing most growth over time, but that may offer potential for supply chain readiness (or expanding existing activity).
- b. there *may* be a need for different focused targeted support for those Manufacturing businesses with 10-19 and 20-49 employees, to enable them to move on and into the 50-249 size bracket.

The trends for 1-4, 5-9 and 10-19 employee manufacturing [businesses](#) also offers some potential, but still mostly reflects the bottlenecks of early growth seen in Scottish businesses fizzling out. With the focus on filling the 'missing middle', what is equally important is the need to replenish growth businesses at the small level. Effective supply chains require both small and medium size businesses to reach maximum effectiveness, and also for nations to realise as much benefit as possible for their economy.

- Amongst 1-4 employee manufacturing businesses, there has been consistent, but slow, growth from 2,700 in 2010 to 3,070 in 2022, a net of (only?) +370 in twelve years. Whilst perhaps not at the pace desired, it reflects the relative trend outlined above for early-stage Scottish growth, which compares favourably to the rest of the UK.
- For 5-9 employee businesses, the net growth was just +65 in 12 years, with 2022 seeing a high of 1,170. For 10-19 employee businesses, there are fewer in 2022 than 2010 – 765, down from 795. This is where the slowdown and bottlenecking of early-stage growth takes hold. This is not just a manufacturing issue, but in context of the supply chain question this evidence is presented to explore, it is a significant issue¹⁴.

¹⁴ A wider look at Scotland's business demographics including business births, deaths, high-growth, and business survival rates by year (from 2014) and by age (1-5 years), all by local authority and nationally, where available, can be found [here](#).

Appendix B – Scotland’s SME success in subsea in Japan - overview

This is somewhat different to what may be perceived as ‘normal’ approaches to supply chain success, but it serves to highlight how a flexible approach, rooted in strong industry knowledge and credibility, positive relationships with big businesses and the SME base, which is capable and willing to seize opportunities, being brought together (following a sustained process to develop and strengthen all these attributes), can bring economic benefit.

Through working with the Japanese Industry Association, it was learnt that development of subsea was a priority for the Japanese economy. On top of this, because they have several large businesses, but a lack of an innovative SME supply chain, it was recognised this was a credible solution Scotland could benefit from through its well-established strengths.

However, what is important to stress was that Scotland *already* possessed subsea strengths.

It was not a potential, or an opportunity, it already was *credible, established* and with a *track record*. This meant solutions could be offered much quicker and gave Scotland a head-start in terms of international competition (a challenge in other industries and those seen as opportunities).

Despite this early advantage, existing relationships and credibility in this area, the process to successfully exploiting these opportunities took approximately five years. One aspect to this is the Japanese culture which does not move as quick as others, but it highlights again the need for sustained relationships over time, underpinned by a range of activities in industries and supporting SME development.

A further spillover benefit from subsea in Japan, might be with Space. A similar situation exists regarding it being a priority for Japan, but without an advanced SME supply chain, they need to look elsewhere. The activity in Scotland and established relationships, could serve to deliver similar benefits (in time).

Appendix C – Invest Northern Ireland and the SC21 Initiative’s role in SME development

The goal of Invest Northern Ireland’s (NI) dedicated activity is to lift up the capability of their business population. As a small nation with a small business population, while supply chain opportunities were a key part of the capability improvement, they remained vulnerable, and so this has been integrated into larger goals.

During Covid times, a specific Supply Chain Resilience and Development Team was established, to build capacity. One of the cornerstones of this approach is the SC21 Supply Chain Excellence (international qualification), for which Northern Ireland (now) is the leading region in the UK for supply chain excellence. It is used by Invest NI as a mode of good practice and quality to engage guide and motivate SMEs.

This guide has been used in NI successfully, for several years because there was a recognition of too much dependence for many businesses (and in several industries) on one key customer, presenting opportunities for growth and diversification, and that supply chain excellence was one element of overall business excellence, but to get to this capability status requires a continuous improvement plan/approach. SC21 offered a way to realise this.

It has worked – of only nine (showing the capability required to achieve this status) Gold Standard manufacturing businesses across the UK, five are in Northern Ireland. This SC21 model has taken around 200 businesses through, with around 50% in advanced manufacturing.

Their approach is less about what SC21 is about and brings (although it does play a role in driving excellence) but because it has been used as a clear step-by-step pathway to open businesses eyes to be thinking about growth and seeing it (via the step by step approach) and lowering that initial risk perception, through a staged approach not an all-at-once, rushed perception that can often occur when talking ‘opportunities’ and with urgency. A focus on the next step, mindful of the overall goal, has proved more successful than focus on the end point.

Overlain is a wide sector variance, but through having individuals steeped in those industries, with relationships across the board from the large to the small businesses, understanding them, speaking their language and being able to assure and advise is critical in weaving the steps above, into a plan forward, relative to that particular business.

Many of the most recent and ongoing drivers and shifts require long-term planning and actions – sustainability and digitisation. And higher-value industries (that rely on certification for example) have longer time-leads, as it takes longer time to develop and perfect products (remember that certification is usually the final step as it locks in the product as complete).

This blended knowledge from relevant experts around a common vision is what has made success. Colleagues from the organisation have their individual specialisms and roles/day jobs but come together around industries and growth opportunities to build SME capability and appetite, and part of this for a small nation like Northern Ireland, is via supply chains.

Key to this is the role of Invest NI as a strategic partner, not just transactional. Building the trust and relationships and recognising this takes time, has been key to success.

There needs to be, and this is where a step-by-step approach is helpful, recognition the goal in elevating capability is to help businesses max out their potential but retain a relationship (and the trust that comes with this) because growth is not linear and at a future point, the business may feel able or capable of moving into further steps, and those relationships can help re-open the opportunity for supporting them on a further growth phase.