



# Supply chain opportunities for Scotland & policy development evidence

Insights & Economics

February 2023

# Introduction

These discussion slides set out the key findings and questions arising from a short study exploring what SE could do, in addition to existing activity, to strengthen the ability of SMEs to benefit from **global supply chains opportunities**, with a focus on Manufacturing.

## Summary

- Supply chains offer a significant economic opportunity SE can have a major role in developing and exploiting.
- However, there are limitations to what realistically SE can do. 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, particularly in light of recent economic turbulence. These can make it difficult to prepare SMEs for specific opportunities without significant knowledge, resource and the need for SMEs taking what they perceive to be significant risks.
- Therefore, success of support lies aligning three internal aspects to identify and support the right businesses exploiting the right opportunities:
  1. The current/ongoing activities of **working with SMEs to raise their capabilities**, encouraging business development, via investing, innovating, and growing – to create more SMEs willing, capable, and able to take advantage of any growth opportunities, including supply chains
  2. With the customer 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, rooted in trusted relationships
  3. Most critically, the above elements need to be informed, and inform, **in-depth industry and sector knowledge** amongst SE staff. This adds independent expertise which gives support credibility at the global customer and SME level, reducing the supply chain risk perception for both.
- The goal is for SE to become/cement itself as a **trusted, independent, and expert intermediary** for both large global businesses and for SMEs to use to realise supply chain opportunities through any appropriate and beneficial means, and leveraging this role to maximise economic benefit for Scotland.
- One of the more recent trends in supply chains has been the desire from global businesses to outsource management of the whole chain to a Tier 1 (likely) medium-sized business, to run on its behalf. This offers a **significant opportunity** (with challenges) that could bring spillover benefits of embedding supply chains in Scotland.
- Many of these factors identified that create the right conditions for success are already operational in SE and working towards achieving maximising opportunities where possible (Global Accounts, Account Management, SMAS, expertise in industries and National Opportunities).

For more detail please see [this summary report](#)



At the core of each of supply chain, the goal is to deliver faster and at more efficient cost (underpinned by quality), usually driven by the (larger) demand side customer. This puts pressure on SMEs looking to exploit these opportunities. In addition, global shifts and drivers can change the risk perception associated with supply chains.

## Barriers to Entry

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

For many SMEs, entry into global supply chains is **not a priority**, or realistically contemplated. Supply chains (especially global) can be seen as a **risk of stepping into the unknown**.

Larger businesses prefer to work with **existing suppliers** before considering alternatives. They do not consider alternatives unless absolutely necessary. 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.

Demand side customers, especially large global ones, are often vague and non-specific about **what they need** in terms of suppliers, raising SME entry barriers (actual and perceptions) because it creates more risk in investing time and resources in striving to produce solutions.

Supply chains have a **continuous pressure** from customers to seek to reduce costs, meaning on the supply side, competition is fierce, margins can be thin and are constantly under pressure.

For SMEs, expanding their supply chain footprint means **increasing pressure** on reducing costs and maximising efficiencies without comprising quality, delivery, and standards.

Which applies pressure on SMEs

## SME capability and readiness

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

The average SME takes a **risk perspective**, and to be successful, it needs the **will** (i.e leadership), the **time**, and the **money** to succeed. SMEs grind daily to fill and then fulfil their order books.

For many SMEs, this stretches their limits of machinery, manpower and serves as the limits of their potential.

Data is hard to find, but feedback suggests a **demographic challenge** exists in leadership amongst Scottish manufacturing SMEs that might have the potential to seek to access supply chains and undertake business growth programmes.

**Leadership is aging** 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. However, this reluctance may not simply be demographic. There are many well-established barriers to growth which continue to persist.

**Finding a broad approach to elevate SME capability, and willingness, to grow, and embedding readiness for supply chains within this, is the best way to overcome the challenges associated with growth and overcoming risk and its perception.**

Which applies pressure on SMEs

## Downward shift in supply chain management

One of the larger trends being seen globally is, as a further pressure related to cost reduction/efficiencies, for demand side customers to seek to push the **management of supply chains onto SMEs**, often medium sized ones.

This trend is driven by a desire for efficiencies, and passes down the managing of relationships, investing in manufacturing and skills, all of which adds pressure onto SMEs. To balance this, long-term contracts are used, providing the assurance to invest.

This requires businesses with the **size, ambition, credibility, and resource** to succeed in supply chain management. In short, this role requires a continuous investment and improvement plan being embedded, in order to manage supplier relationships, deliveries and ongoing pressures.

However, evidence has consistently shown **Scotland struggles to create Medium Sized Businesses (MSBs)**.

As a result, and partly due to the relative lack of numbers willing and capable MSBs, opportunities go elsewhere.

This has negative consequences, as **further local supply opportunities** available from managing the chains domestically, also go elsewhere. Should more small businesses grow 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.

## What success looks like and where supply chains lie

The challenge lies in bringing together three elements:

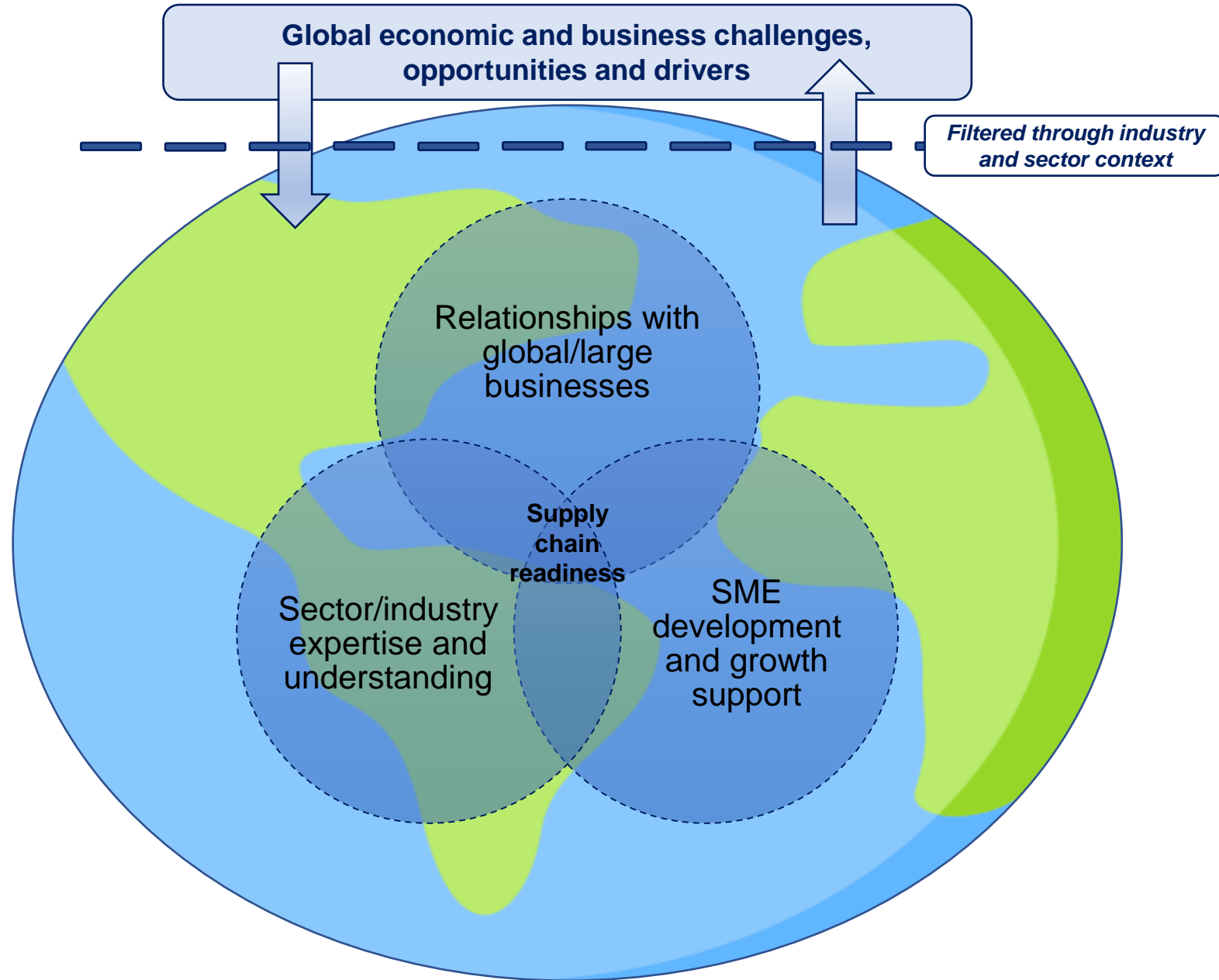
- expert understanding of the prospects of supply chains and their potential across key industries and opportunities
- a strong emerging SME base interested, willing and able to exploit supply chain capability as part of their business development,
- and effective, trusted working relationships with global businesses operating in relevant industries critical to the national (and SME) strengths and opportunities.

The goal is to bring these elements together to be seen as an:

- independent,
- consistent,
- expert, and
- trusted,

partner to both the SME community and global businesses/customers.

This enables the realisation of any growth opportunities wherever and however they arise, including supply chains.



# What are the key questions to consider when developing supply chain support programmes?

The questions below can be a broad supply chain development programme 'checklist' to consider

## ***SME base***

- How best to encourage more existing and future SMEs to consider the potential of supply chain engagement (and how to identify these SMEs), and support them as part of their overall business development, to be supply chain *ready* both in the short and long-term?
- Where should the focus be? (For example, which industries need small and medium sized business focus, and how can these be aligned with global businesses and global opportunities where appropriate? Does the Missions offer a potential approach on which to build this approach?)
- What applicable lessons could be learned from understanding the experiences of those successful SMEs embedded and active in supply chains (from initial concept of engagement, through to how they manage their roles)?

## ***Global relationships***

- Where should the focus be? (For example, which existing and new global relationships, and how can these be aligned where appropriate with the readiness and abilities of SMEs? As above, do the Missions offer a potential on which to build this approach?)
- Do we understand the drivers of supply chain activity over the medium term and beyond (and are monitoring developments in these areas), and how these may provide future supply chain opportunities for suitable and ready SMEs now and in the future?
- Could inward investment play a role in anchoring Tier 1 supply chain management businesses within Scotland? Similarly, can T2 and T3 SMEs exploit, via exporting, supply chain opportunities elsewhere?

## ***Industry and opportunity expertise***

- What expertise does SE have, and what expertise does it need, in the areas presenting the greatest opportunities?
- Do we understand the opportunities in the short to medium-term to be able to assist more businesses to exploit them?
- Do we understand how these align to the current and future SME business base? (For example, are the short-term openings in T2 and T3 opportunities, or in T1, and in which industries/National Opportunities?)