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What MNCs Look for in Their SME Suppliers

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What MNCs Look for in Their SME Suppliers



In the new global economy, the success of MNCs depends on the strength and vitality of their global value chains.

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SME's role in the Canadian economy:

- SMEs account for:
 - 43 per cent of GDP
 - 62 per cent of private sector employment
- SMEs and global trade:
 - 36 per cent engage in importing/exporting
 - 15 per cent participate in global value chains

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Project background:

- Two reports:
 - *What MNCs Look for in Their SME Suppliers*
 - *Opportunities and Challenges for SMEs in Working with MNCs*
- Sponsored by the Conference Board of Canada's International Trade and Investment Centre (ITIC), with additional funding provided by the Business Development Bank of Canada (BDC).

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Project methodology:

- Findings of both reports are based on:
 - Literature review
 - Interviews with 10-15 senior-level MNC officials
 - Interview with 10-15 SME owners and managers
 - Online survey of SME owners and managers
 - Roundtable discussions with MNCs and SMEs

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What MNCs Look for in Their SME Suppliers

Essential questions:

- What criteria do MNCs use to select their SME suppliers?
- What are the best ways for MNCs and SMEs to connect?
- What are the major trends in MNC-SME relationships?

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What MNCs Look for in Their SME Suppliers

Presentation:

- This presentation focuses on the first report: *What MNCs Look for in Their SME Suppliers*
- Key findings:
 1. MNCs *select* their SME suppliers based on the “best fit” with their global value chain.
 2. MNCs increasingly *connect* with SMEs through online resources and other innovative mechanisms.
 3. MNCs *build* effective relationships with their SME suppliers by engaging in long-term, sustainable collaborations.

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What MNCs Look for in Their SME Suppliers

1. MNC's Selection Criteria:

- In selecting suppliers, MNCs look at:
 - *Product Attributes* (e.g., price, quality, delivery)
 - *Company Attributes* (e.g., capacity, reputation, location)
 - *Corporate Responsibility Criteria* (e.g., business integrity, employment practices, environmental standards)

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1. MNC's Selection Criteria (cont'd):

- The precise mix of benefits that MNCs look for in each case varies according to the product and value chain in question.
 - **Price** – main criterion for basic services or raw materials.
 - **Quality** – important for complex, high value-added services and finished goods.
 - **Delivery** – essential for products in time-sensitive industries such as software engineering

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1. MNC's Selection Criteria (cont'd):

| | Producer-Driven Value Chains | Buyer-Driven Value Chains | Hybrid Value Chains |
|------------------------|---|--|--|
| Industry Examples | <ul style="list-style-type: none"> •Automobiles •Communications | <ul style="list-style-type: none"> •Apparel •Food Processing | <ul style="list-style-type: none"> •Electronics •Semiconductors |
| Key Buyer Expectations | <ul style="list-style-type: none"> •Technical Capabilities •R&D Activities •K Investment | <ul style="list-style-type: none"> •Design & Marketing Capabilities •Comp. Costs | <ul style="list-style-type: none"> •Responsive production and distribution capabilities |

Source: George Abonyi, "Integrating SMEs into Global and Regional Value Chains;" and The Conference Board of Canada

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1. MNC's Selection Criteria (cont'd):

- MNCs expect SMEs to develop a realistic niche marketing strategy based on their distinctive value proposition.
- SMEs need to ask themselves:
 - What are their core competencies?
 - How do these competencies fit with MNC needs?
 - Do they meet the MNCs selection criteria?

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2. Connecting with SMEs:

- MNCs connect with SMEs through a range of mechanisms; the preferred method depends on the industry and product.
- Key trends in MNC-SME connections:
 - Expansion of online mechanisms (e.g., online supplier application forms, supplier portals, and e-auctions)
 - Development of supplier diversity programs
 - Opportunities to subcontract from “higher tier” suppliers

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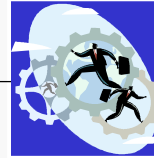
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3. Building Collaborative MNC-SME Relationships:

- Many MNCs are now moving towards replacing short-term, transaction-based relationships with long-term collaborative partnerships with their suppliers.



- This trend has created both challenges and opportunities for SMEs.

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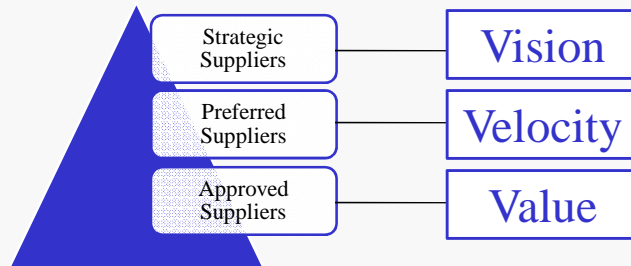


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3. Building Collaborative MNC-SME Relationships (cont'd):

Keys to success:

- ✓ Consolidating the suppliers base



Source: Nortel Networks; The Conference Board of Canada

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3. Building Collaborative MNC-SME Relationships (cont'd):

Keys to success:

- ✓ Ongoing measurement of supplier performance
 - Bayer's Supplier Relationship Management (SUPREME) model
 - Wal-Mart's Supplier Scorecard

- ✓ Investing in supplier development
 - Providing expert advice
 - Joint investments in knowledge and capital

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3. Building Collaborative MNC-SME Relationships (cont'd):

Keys to success:

- ✓ Empowering the supply chain leadership
 - The top supply chain executive should have the right skill set and a seat in the C-Suite

- ✓ Reshaping the organizational culture
 - Means changing the corporate mindset and practices when it comes to working with SMEs

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Call to Action:

MNCs:

- Examine the business case for partnering with SME suppliers

- Incorporate keys to success for collaborative partnerships
 - ✓ Consolidating the suppliers base
 - ✓ Ongoing measurement of supplier performance
 - ✓ Investing in supplier development
 - ✓ Empowering supply chain leaders
 - ✓ Reshaping organizational culture

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Call to Action:

SMEs:

- Focus on core competencies
- Understand the expectations of MNC partners

Govt and other stakeholders:

- Sector specific research on MNC-SME linkages
- Encourage connections between MNCs and SMEs

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