

Close-up

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# SME guide to value chains



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# SME guide to value chains

# About this publication

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This guide offers small and medium-sized enterprises (SMEs) insights on negotiation and collaboration with lead firms in international value chains. It addresses topics such as compliance with standards and regulations, contractual relationships, production and performance management, types of upgrades and strategies to avoid 'lock-in'.

It also highlights five company success stories, illustrating how small companies grew to become regional or global leaders. The guide is based on chapter excerpts from the 2017 edition of the *SME Competitiveness Outlook – The region: A door to global trade*.

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# Contents

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Acronyms.....	VI
Introduction.....	VII
<b>SME POSITIONING IN VALUE CHAINS.....</b>	<b>1</b>
Value chain governance matters.....	1
Avoiding capture.....	3
Increasing SME bargaining power.....	3
<b>CRITICAL MANAGERIAL AND OPERATIONAL CAPACITIES.....</b>	<b>4</b>
Entering regional or global value chains.....	4
Setting objectives.....	4
Being attractive to lead firms.....	5
Complying with standards and regulations.....	5
Fuelling the entrepreneurial spirit.....	5
Operating successfully within value chains.....	6
Negotiations to build business relationships.....	6
Contractual relationships.....	6
Investing in excellence.....	8
Meeting production needs of lead buyers.....	10
Getting products to buyers efficiently.....	10
Analysing performance to learn and improve.....	10
Upgrading in value chains.....	11
Types of upgrades.....	11
Strategies to avoid 'lock-in'.....	12
Diversify into new markets.....	12
Align with corporate social responsibility.....	12
Use acquired knowledge.....	12
Considerations for services exporters.....	13
<b>COMPANY CASES: FROM START-UPS TO LEAD FIRMS.....</b>	<b>15</b>
Wilderness Safaris: From safari camp to regional ecotourism operator.....	16
Grupo ARCOR: From candy maker to Multilatina.....	18
KÜRT: From repair shop to European data recovery company.....	20
Hikma Group: From local manufacturer to pharmaceutical titan.....	22
Synthite Industrial Chemicals: From small factory to a global spice leader.....	24
Endnotes and References.....	26

## Figures

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FIGURE 1	Five types of value chain governance.....	2
FIGURE 2	Captive governance in countries with low Human Development Index.....	2
FIGURE 3	Bargaining power of SMEs within international value chains.....	2
FIGURE 4	The negotiation process.....	6
FIGURE 5	Stages of a negotiation meeting.....	6
FIGURE 6	The continuum of contractual relationships.....	7
FIGURE 7	Obtaining and selecting offers.....	8
FIGURE 8	Key competencies for operational excellence.....	9
FIGURE 9	The buyer's perspective: Types of suppliers.....	10
FIGURE 10	The performance management process.....	11
FIGURE 11	Types of upgrades in value chains.....	11
FIGURE 12	Regional operations, Wilderness Safaris.....	17
FIGURE 13	Commercial offices of ARCOR worldwide.....	19
FIGURE 14	ARCOR value chain.....	19
FIGURE 15	Kürt's expansion strategy.....	21
FIGURE 16	Hikma manufacturing and R&D in Middle East and North Africa, Europe, and United States.....	22
FIGURE 17	Synthite's worldwide operations.....	25

## Boxes

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BOX 1:	Model contracts for SMEs.....	7
BOX 2:	Characteristics of trade in services.....	13

# Acronyms

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EU	European Union
GATS	General Agreement on Trade in Services
ISO	International Organization for Standardization
ITC	International Trade Centre
MENA	Middle East and North Africa
MERCOSUR	Common Market of the South
R&D	Research and development
SME	Small and medium-sized enterprise
TISI	Trade and investment support institution
WTO	World Trade Organization

# Introduction

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Small and medium-sized enterprises (SMEs) represent the backbone of every economy. They tend to make up for over 95% of all firms, but only relatively few of them are active in foreign markets. For example, in the European Union, SME exporters contribute 34% of total exports, and in ten South-East Asian countries, they account, on average, for 30% of total exports.<sup>1</sup>

The reasons why SMEs hold back from exporting are multiple. They often do not feel confident that they have enough market-relevant information. For others, the costs to get products through the border or set up foreign distribution networks appear unsurmountable.

Some risks and costs can be reduced significantly if SMEs manage to connect to international value chains. In these cases, lead firms often provide key information related to demand and requirements. Distribution and logistics are also often facilitated by lead firms. Evidence suggests that linking up to value chains can generate significant spillover effects, notably through exposure to new management methods, new technologies and new materials.

The extent of the benefits that SMEs draw from such engagements depends largely on the relationship the SME establishes with the lead firm. The contractual side of that relationship is particularly important. For SMEs to take full advantage of market opportunities arising from international economic integration, they need to be proactive within international value chains.

This guide provides SMEs with critical information on how to best approach negotiations and collaboration with lead firms and other suppliers within international value chains.<sup>2</sup> Guidance, handbooks or frameworks on supply chain management or international expansion strategies are easily available. They tend, however, to be written from the point of view of the lead firm within

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