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Redefining the relationship

Araldo Ltd Director John Reeve provides a business perspective into managing an industrial capability...

The defence industry has worked hard to meet the army's demanding equipment requirements in recent years. By and large it has been very responsive, delivered at speed and taken considerable risk in doing so. Of course there have been rewards too, but the outlook is different and industry must find a new balance in meeting the post-Afghanistan needs of the MoD. The nature of business will change, the volume of work will reduce and both industry and the MoD must redefine their relationships in this context. As companies plan their strategies and seek position, the MoD will have a significant vote in determining the outcomes. It will also have to live with the consequences and should therefore act with care in this turbulent time.

There is neither a correct answer nor a blueprint for success. The industrial base is not determined by a single design or master plan – it results from a complex set of complementary and competing concerns. Companies quite rightly act in their own interest, seeking opportunities to exploit their strengths whilst protecting themselves from real and perceived threats. Frustrating as it can be at

times for the defence customer, this anarchic system is what generates the industrial capacity to meet the capability requirement. At various points, the MoD has articulated its 'industrial strategy', but it would perhaps be better advised to adopt some more general guiding principles instead. One size does not fit all and the MoD should give itself freedom to act in its own best interest, balancing a number of factors.

Principle one: respect business for what it is

Businesses are required to act in their own interest and one should not expect them to do otherwise. Foremost concerns will be cash flow and profit because businesses cease to exist without them, but the term 'best interest' has broad meaning and business managers must consider many factors in their decisions – long-term strategy, shareholder interests, workforce, community, environment, legislation, suppliers, customers, reputation, etc.

Principle two: respect position

Companies will seek to build position in order to protect and develop their future business. This can be good or bad

for the defence customer depending on its nature and the circumstance. The defence customer also has a position that it can build, protect or give away. Giving it away is almost invariably a mistake, but over-protection and inappropriate controls are generally detrimental too. However, rather than focusing on the negatives in negotiation, procurement staff should seek to create a fair deal.

Principle three: look for the win-win

The equation should be simple – the defence customer wants a product or service and the supplier wants to undertake profitable work to deliver it satisfactorily. The question should be: who is best placed to deliver and how do we work together whilst ensuring that payment is fair and risks are properly managed?

The unintelligent application of process is not the best mechanism for answering the question, nor for that matter, is blindly doing what you did last time.

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Principle four: understand who should own risk and how best to manage it

Ultimately, there is only one owner of risk, because if the solution is unsatisfactory or not delivered, it is the customer who suffers even if money has not changed hands, or the contractor is punished with a financial penalty. That said, it can be cost effective to flow down considerable responsibility for risk management to industry, and where appropriate, the customer should seek to do so. However, it should not seek to do so if: the risk is better managed by the MoD; it is outside the control of the contractor; or accepting the risk could put the contractor out of business. Management of risk will be reflected in the price, and the customer must also determine what constitutes value for money.

Principle five: understand the cost of stop-start

Businesses generally improve their efficiency with a predictable and steady workflow. For all sorts of reasons, defence business has a habit of being lumpy and recent Urgent Operational Requirement (UOR) procurements are examples of the case in point.

Some contributing factors are unavoidable but many are not. The conspiracy of optimism, bureaucratic delay and failure to manage expectation all impact negatively on delivery, cost, reputation and relationships. In extreme cases, stop-start contracting can lead to unnecessary redundancies, reliance on expensive temporary labour, increased supply chain costs and obsolescence. These

factors should be part of the procurer’s planning process and properly influence decisions where time and schedule are negotiable.

Principle six: balance the short and long-term view

It is not possible to predict every outcome or eventuality but decisions made in the short term can significantly impact the longer term for better or worse. In choosing a procurement strategy, staff should consider both timeframes, even if there is conflict between the two perspectives. It is easier to construct a business case within defined limits of time and policy but if these are unrealistic then it is likely to result in painful consequences such as the procurement of obsolescent systems, increased support costs or complexity in the support solution.

Principle seven: encourage innovation where there is a good chance of success and the risk of failure is manageable

Technology is evolving all the time and defence equipment must evolve with it. The UK has a proud tradition in technical innovation for defence and the MoD should continue to support this important activity. There is a touch of the intangible about this principle and it is perhaps as much about attitude and behaviour as it is funding. It requires a ‘can do’ approach, a spirit of partnering, trust, (sensible) speculation, encouragement of success and (some) acceptance of failure. Adherence to principles one to six create a foundation for this.

Principle eight: support UK industry in defence exports

The UK defence customer should take pride in its industrial base and support its export efforts. UK industry has served the MoD well and exploitation of its technical victories abroad delivers benefits in foreign policy, defence diplomacy and to the UK economy. Companies with healthy export trade are also more robust, which makes it easier for the MoD to manage the lumps and financial risk. Commercial success abroad also helps to drive the spirit of innovation.

Conclusion

Prospects for the defence sector look tough, and survival will be the overriding concern for some. In this context, companies are preparing to weather the storm and trying to determine how best to position themselves for the next phase. For its part, the MoD will continue to need a healthy sovereign industrial base, even if stretching a tight budget is driving the agenda at the moment. In determining its own best interest in the short and longer term, the MoD needs to think carefully about the impact of its decisions on all of its suppliers.

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 John Reeve
 Director and Principal Consultant
 Araldo Ltd
 Tel: +44 (0)7767 693173
 john.reeve@araldo.co.uk
 www.araldo.co.uk