



Defence and Industry Study Course 2010

SPEECH BY ASC MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER STEVE LUDLAM

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Thank you Air Vice Marshall Chris Deeble for your kind introduction. I am delighted to be part of this dinner tonight and address you on the topic of the strategically important aspects of small to medium enterprises, their management and their future in the defence industry.

I welcome all participants of the Defence and Industry Study Course 2010, ladies and gentlemen.

The amount of experience in this room tonight is extraordinary and I hope you have a chance to share much valued expertise and knowledge with each other tonight.

I haven't met many of you, so at this point you may be thinking... "Who is this bloke?"

Let me begin with a short background on myself.

I am an engineer recently elected as a Fellow of the Royal Academy of Engineering in the United Kingdom. I commenced my career as a mechanical engineer then qualified as a nuclear engineer.

Throughout my entire 35 years of working life, I have been involved with submarines and ships – in the UK, Europe and the United States.

I was delighted to join ASC earlier this year after many years spent with Rolls Royce.

So, in a nutshell, I am an English bloke who knows a thing or two about ships and submarines!

The Department of Defence has run the DISC annually for more than 50 years and it is important tonight that I note ASC's support of the DISC.

I am confident that the collaboration between the DMO, the Royal Australian Navy and ASC, beyond our core business – of maintaining submarines and building air warfare destroyers – will strengthen over the forthcoming years.

The DISC shows unprecedented commitment from Defence to enhance mutual understanding with industry, which will create better business and personal networks that can be used during rapid mobilisation and expansion of the Australian Defence Force.



We in industry need to support the front line with greater effectiveness, greater efficiency and greater value for money.

This evening is one of these occasions where we can strengthen the behaviours that release everybody's ability to support the front line.

The part SMEs play in providing to the front line is critical, so how do we get the best from them when it is well known that in recent years the trend has been for Defence to deal with a smaller number of prime contractors for both acquisition and sustainment?

ASC is one of the few primes, and the only Australian-owned one. So we together are kindred in our need to support, lead and manage SMEs here in Australia.

Let me start by making reference to the recently released Defence Industry Policy.

This policy sets a few principles: setting clear investment priorities, establishing a stronger Defence – industry relationship, seeking opportunities for growth and building skills innovation and productivity.

It is a clear policy, which if implemented well will allow SMEs to break into global supply chains and gain support from the priority industry capabilities, particularly in the latter case from the PIC Innovation Program.

It is equally clear that the SMEs (and indeed the primes) should have no sense of entitlement. Be strong in your dealings with SMEs; strong in that SMEs need to be internationally competitive and provide value for money.

They should give themselves the best opportunity to compete and win against off-shore organisations for work done here in Australia.

As an aside, I should also add that my leadership of ASC is directed to making ASC internationally competitive. I don't mean this in the sense that ASC should do work overseas, but for ASC to be fit to fight and win work here in Australia.

Now returning to the main theme of SMEs – how do we lead and manage SMEs to provide significant value to Australia's Defence Force?

The primes and Defence need to work in concert to achieve this.

Together we can provide them with good long term estimates of work and long term contracts to give them greater certainty. We can help them with skills development and export.

We can, in some cases, require Australian content provided value for money is demonstrated. Separately we can work with them to reduce prime contractor risk or to develop niche or 'blue sky' technologies.

There is a whole spectrum of approaches we can take to develop a strong indigenous SME community here in Australia. A community that is innovative, reduces the risks of a program and develops winning solutions.



Let's take a look at the rough dimensions of the marketplace. If we take a supply chain for a complex military platform, SMEs can number around 2,000 with possibly 7,500 purchase orders a year.

Why does a prime need SMEs and how do they support the ultimate customer in Defence?

Any prime needs to be clear on its core business - the things that give it a competitive edge. And, equally, a prime needs to be cost competitive.

So the prime needs to consider carefully whether it should vertically integrate and do and make everything from fasteners to combat systems, or whether it should have a solid supply chain that it will work with, develop and essentially leverage its competitive position as a consequence.

Clearly, if a prime gets this right it will provide huge customer satisfaction and win a high percentage of its bid. It is therefore incumbent on a prime with a supply chain to give them the credit for what they do, mature and develop them and support them through efficiency drives and longevity of work.

SMEs are therefore a vital part of defence, who should be respected and without whom the front line would not get the first class support it deserves.

Let's take a look at a number of scenarios.

First – let's consider some of these SMEs who provide commodities, like fasteners.

What can we do for this group?

If there are a number of companies all able to provide the right product more or less off the shelf because they work across a number of markets, the answer is to seek the best price by competition.

If, however, there is a small group to choose from with special fasteners but now critical product, we can give them a long term view of our demand so they can take a long term view of the attractiveness of the market and ultimately decide for themselves their place in it.

For this group we can be clear in our specification and our OQE requirements, but not over burden some in our bureaucracy of soliciting a proposal or making a selection.

Our purchasing processes need to be lean and low cost for this group. Once we have selected we may decide to have them on a long term contract depending on the volume of work.

If we do, we need to develop them as a business, be sure that quality is always perfect and essentially help them be fit to win overseas work by working with them as partners in supply.

This group will invariably be managed by the primes or contractors to the primes, and invariably they will represent a very small risk to overall contract performance.



As for critical commodity, it is unlikely to need any involvement from Defence other than where particularly exemplary work has been achieved in which case Defence could recognise their achievement.

Now take the case of a small number of SMEs competing to win a specialised critical component for a major platform.

In this case the simple approach of competing with the full burden of bureaucracy may not be the right one. A careful assessment needs to be made as to their criticality to the program, their risk or ability to de-risk the program, their longevity and their ability to support the product in service.

This could all be done by the prime contractor, but there needs to be a discussion with defence on a number of levels. For example, if the component is critical, defence may seek oversight of the quality, and a discussion may be needed to only accept competition between Australian contractors because of sensitive intellectual property issues or for national security reasons.

The need therefore for Defence and industry to establish a strong relationship is paramount.

This relationship needs to rise above the fear that by talking to one another, Defence will be accepting some of the risk from the prime contractor.

The relationship needs to develop such a partnering approach that roles and responsibilities are clear, behaviours are consistent, sound strategies can be developed, and risks can be clearly allocated to those best able to manage them whether they be in Defence, the prime or the supplier.

Particularly, in this very specialised critical area, it is important that all three parties, the SME, the prime and Defence, are clear in their needs and communication. At a minimum, Defence needs to show the face of the front line to continually reinforce to the prime and the SME that lives and the security of the nation are at stake.

Now I have talked about a whole spectrum of engagements between SMEs, however I will consider one last scenario – the niche SME who is tasked with developing a technology or has developed a technology and needs to sell it. Defence may well be contracting this SME directly or being offered the technology.

A conversation at the appropriate time between Defence and the prime will be one of tasking the Prime with introducing the new technology into the platform. The discussion is likely to centre on risk transfer, intellectual property and price.

Defence may well need to be strong in its approach to push this technology since primes traditionally are averse to new technology or, more correctly, the risk that is perceived it comes with.

So is there a future for SMEs in Defence and does Defence have the opportunity to play a part in that future?



The answer quite firmly is yes. SMEs are a vital part of our industry. SMEs provide low cost and innovative product with a depth of skill in narrow fields that is second to none.

SMEs should be encouraged by primes and Defence alike. And, while in the majority of cases the primes will have first level contact, Defence could never disassociate itself from this set of suppliers.

To do so would lose Defence the opportunity for lateral and innovative solutions that may make the whole difference in fighting and winning.

In summary, I would like to conclude with these four points:

- 1) Primes and SMEs alike should have no sense of entitlement to Defence program. We should all strive for efficiency, become competitive on an international basis and fight to win work in Australia.
- 2) Defence and the primes need strong relationships based on clear communication between all parties.
- 3) Defence should never be disconnected from SMEs. In simple terms Defence can say “thank-you” to an SME for good performance or could agree with a prime to include an SME’s new technology on a platform.
- 4) The cost burden of bidding or contracting with Defence or Defence primes can be a burden to an SME. This burden should be reduced without eroding the quality output required from the SME.

Thank you for inviting me to speak. I hope my comments have been efficient to stimulate your thoughts.

Clearly there is a strong place for SMEs in Defence; a place largely contracted through primes but where Defence is never disconnected.

This concludes my thoughts and I think we have a small amount of time now to take some questions.