

By David Bowles, Northern Defence Industry

The importance of the defence industry to the economic well-being of the regions should never be underestimated. It is an industry populated for the most part by dynamic and flexible SMEs who can react quickly and innovate; SMEs that for instance, between them account for at least 10,000 jobs in the north east. It is estimated that at least 50 pence in every defence procurement pound ends up with a UK SME.

The UK engineering industry, especially that in the north of England, has a long and proud tradition of supply to the defence industry. But it is now faced with serious dilemmas about its future direction, its viability and its sustainability. The same can be said for other sectors, too, but defence is different. For a start, it operates in a peculiar environment. There can be few other industries if any where the procurement process is so elongated or convoluted. Major defence projects can take anything up to 10 years to reach full scale manufacturing. You simply don't order a battle-tank, a new aircraft or a large ship 'off the shelf'. The bidding process alone can sometimes take years to complete. One of the almost inevitable consequences of this unusual trading environment is the creation of a 'boom and bust' business cycle. If SMEs can somehow stay the course during the long, expensive and often frustrating bidding cycles, then their reward lies in an extended period of supply into and support of major defence projects. If not, what then?

The most agile among the SMEs that form the backbone of defence supply chains seek out new markets; they develop new capabilities and shed old redundant or unprofitable ones. And this is where a major dilemma is created. In order to at the very least sustain, or at best grow the defence sector, there are two distinct courses of action open to business and Government. One is to invest heavily in training in advance the 'push' approach - in order to meet the demand for a skilled workforce for future business. The Government is committed to such training and that, of course, is to be welcomed and encouraged. However it must also be recognised that this can be a considerable burden to the SME community in terms of time and cost. The danger of this 'push' approach, however, is that unless there are significant changes in the way defence procurement is managed, the nation may be investing in preparing a workforce with skills but no business upon which to practice those skills. What is the alternative?

In my capacity as Managing Director of Northern Defence Industries Ltd, I head up an organisation that works to create access to markets for its 200 subscribing member companies. Access to markets forms the logical beginning of a chain of events. We are stimulating supply chain visibility by the launch at DSEi recently of a substantial database of members' capabilities. This is designed to inform the prime contractor community, which increasingly is interested in collaborative working, especially in the manufacture of components and sub systems rather than making every nut and washer themselves. Access to markets leads to new orders. New orders create revenue and wealth. Wealth creates a climate that encourages growth. Growth brings about new jobs and new jobs in turn create demand for support programmes and training. If this argument is followed through, it means therefore that there should be a radical shift towards investing in present skills, meeting the demands of business already won, rather than investing in future skills to meet the hoped-for demands of business yet to be achieved. There is an inherent weakness in the 'push' approach. Training programmes designed to cater for future business rely too heavily on forecasting an imprecise technique at the best of times. There are too many variables, too many unknowns that must be factored-in in order to make informed decisions. I believe we should concentrate on giving businesses the extra resources that will enable them

to build on their current successes. In doing this, the skills base that already exists is further strengthened. Thus strengthened, SMEs are further encouraged to seek access to additional markets, which as we know leads to more orders.....and thus the positive feedback cycle continues.

But for this to happen there has to be an unequivocal recognition by Government that defence orders need to be planned and placed more in accordance with the needs of the commercial world and its timetables, rather than the timetables dictated by politics and grand strategy. There must be more understanding of the world that is inhabited by the SME supply chain.

One thing is certain: If nothing changes in the world of defence procurement, then we could see a situation in the not too distant future where the supply chains that currently exist to service the needs of prime contractors and ultimately the Government actually disappear.

The agile SMEs will have tired of waiting. They will have discovered new markets ♦ and moved on. The capability they provide will be lost to the nation and with it self-reliance in meeting defence needs and the economic benefits that flow from Government expenditure on goods and services of ♦16 billion every year.

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