

How SMEs should navigate the strategic challenges during and post Covid-19



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Rebecca Humble (RH), Chief of Strategy and Capability for Nova Systems and Jim Whalley (JW), Chief Entrepreneur for South Australia and Chairman and co-founder of the Nova Group, recently (9 April 2020) discussed strategic challenges for Defence SMEs post COVID-19.

How is the current Defence market in Australia and Internationally being influenced by the COVID-19 pandemic?

RH: At a macro level, the effects will be different for different businesses and sectors. This crisis started with travel and labour force disruptions unlike the Global Financial Crisis, which started in the housing market. Defence and defence industry are not as immediately impacted as other industries like commercial aerospace; so it's going to take time to understand the longer-term implication. It is too early to predict if the industry will flatline, if we're going to see a major or minor dip, or if indeed there might be some growth to come out of this.

What are the current major impact points on defence industry of the pandemic?

RH: For businesses and SMEs it's very important to understand what the major impact points will be and consider those scenarios and how they will impact your business plans, supply chains, as well as your client relationships.

Some of the possible impacts on DI as we emerge from this pandemic.

- Companies may look at taking on alternative supply avenues.
- Production and operational facilities: In certain cases operations may be suspended or closed. Fincantieri in Italy have closed their shipyard operations for the time being.
- Business development efforts (especially SMEs): Defence as a sector is marked by high value contracts, of long durations and negotiation periods, often with government-to-government engagement. Large parts of these interactions are done face to face at defence industry events and as seen with the recent cancellation of the Singapore Airshow this is likely to have an impact on BD efforts. While there is no doubt some BD efforts & negotiations can be done over digital media, I think this is unlikely major procurement decisions will be decided via a virtual medium. Another example of BD efforts being impacted is the US suspending deployments and exercises which are often used as mediums to test new equipment or to de-risk offerings.
- Altered demand for defence capability and services with some nations focussing on sovereign capability.
- Industrial Landscape: Further consolidation of the market could result as we have already witnessed in the States. Some of the largest players may look to vertically integrate off the back of this period with more diversified portfolios coming out of this.

Where will defence industry be in 12 to 24 months?

JW: Defence may not be impacted as much initially because it has traditionally been a safe place for Government to spend money with defence spending having gone through all the appropriate checks and due diligence. The landscape in 18 to 24 months will depend on how long this pandemic continues. Current Government support packages are planned to cover the next 6 months but it could go on longer. If so, in 18 to 24 months governments will be looking to create surpluses to get the debt burden down. Unfortunately, one of the places it's easiest to save money is on Defence spending. There are counterbalances though, one is further instability caused in the region due to COVID-19 and also a drive towards sovereign capability.

There is an opportunity for Australian Defence suppliers to stand up and show what they are capable of. We've seen in our own organisation that some clients couldn't source certain products and services from overseas; they have come to us and we were able to deliver.

We'll have a better idea in 12 months' time but businesses should plan for all the possible scenarios. Until then it is business as usual. Government may keep it in place and look for sovereign capability or there may be a cut to bring Australia back to surplus.

What can businesses do now to consider implications?

RH: There are 2 scenarios at play: If we find a vaccine quickly the impact on Defence events and activities is likely to be marginal. Some contracts may slip to the right but potentially won't be cancelled. There may even be some growth due to pent up demand towards the back of the year.

The flip side is that we don't find a vaccine quickly, containment is not as successful and Defence spending is de-prioritised as a result.

SMEs need to be aware of these scenarios and do some of the modelling and risk analysis now as to how this might potentially impact business plans, supply chains and client relationships

There are some practical things SMEs can do to ensure future sustainability through business planning and keeping their workforce.

- Bolster cash reserves. At Nova we're focusing on preserving cash and future cash flows.
- Make the most of the almost \$200 Billion in Government support.
- Take advantage of the increased engagement that Defence and Government are taking on and build on those relationships with Government and Primes.
- Businesses should ask themselves how Australia can muster sovereign capability previously delivered by offshore primes. A real workforce in-country effort.
- Look at how they could support the COVID-19 effort. Could they re-purpose or re-tool to provide support?
- What offerings do you have in your portfolio that can support strategic defence capability? SMEs that can show that they have true sovereign capability will get through this crisis more effectively.
- Explore areas where there could be an increased demand. By way of example, if ADF had to take on more civil support roles off the back of this crisis this may present opportunities.

What does sovereign capability really mean? What opportunities do Australian businesses have to put their best foot forward and sell themselves?

JW: I believe sovereign capability resides in Australia. It needs to be based here and not in a warehouse overseas. There is an opportunity to talk to Government and Primes as they find it more difficult to source internationally. Reaching out presents challenges in these times but the use of technologies such as Zoom or teleconferencing represents an opportunity. Now that I'm not spending any time on aeroplanes, I have more time.

Defence is technically literate and have adapted to the new circumstances as well as anyone. There are of course challenges in manufacturing due to social distancing. In services and design industries people can work from home productively. There are real challenges for all of us, but there are real opportunities for Australian industry to show what we are capable of, not just in defence industry but also other industries that may need our help. Medical equipment and transportation of medical equipment are examples of this. We must engage with customers and suppliers and build relationships.

DTC CEO Audra McCarthy: The current situation represents an opportunity for Australian industry to show exactly how agile, flexible and adaptable they are, which is something Australian industry have been highlighting for many years. But now, we have a captive audience. The whole of Australia, including government, procurement officials and consumers are now realising the impact of having advanced manufacturing offshored. As a country, we have lost sight of the importance to be a self-sustainable country. The current situation has highlighted our country's overdependence upon global supply chains. As our services sector, hospitality and tourism have been forced to close, it's now the manufacturing sector that is largely keeping the Australian economy going. This in itself highlights the value for money argument for having goods manufactured here in Australia by Australians.

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