

DESO SYMPOSIUM – SMALL BUSINESS UPDATE (JB)

Introduction

It was in this room, three years ago at the DESO Symposium 2004 that Lord Bach, then Minister(DP), launched DESO's Charter for Small Businesses (**Slide 1**). Many of the Symposium regulars here today will have been present, and I hope we managed to convince you then that this was not just a PR exercise – there was more to this initiative than the glossy brochure. So let me take a few minutes to remind you what the Charter was all about, what we in DESO have been doing to help SMEs since then and our plans for taking forward one of DESO's most important initiatives.

Our aim in producing the Charter was to demonstrate that DESO was serious about helping smaller UK companies. DESO support was of course always available to SMEs, but our traditional focus was on the larger campaigns that often require significant support from the Armed Forces and Whitehall. I should stress that the launch of the Small Business Charter did not signal any reduction in our commitment to the bigger deals. What it did signal was that DESO wished to develop – in partnership with the defence industry – additional services that met the needs of UK's extensive defence small business community.

The Charter served an important purpose in setting out the nature of this partnership **(1a)** – in particular the support DESO was going to provide. But we were not going to succeed on words alone.

So we established a Small Business Unit of ten people – here today upstairs in the Pickwick Suite – with dedicated Account Managers for every Charter Member. Their job would be to get to know company capabilities and aspirations; increase DESO's understanding of the kind of support small businesses need; and then to ensure this support got delivered – by the SBU itself and by colleagues across DESO. And this is an important point – this is an activity in which the whole DESO team has a part to play and is fully committed.

I've even heard Alan Garwood say that when it comes to DESO support, size doesn't matter! which I assume is a reference to this initiative!

Progress since 2004

Since 2004 we have been working hard to achieve two main objectives. First to make this new service available to as many small companies as possible. And second to ensure that there is real value in being a DESO Charter Member.

Charter Membership

The Charter Member community has grown steadily over the last three years **(Slide 2)**. We recruited about **(2a)** 180 companies in the first year of the scheme, **(2b)** half that amount over the following 12 months and another **(2c)** 120 so far this year. So we now have almost 400 Charter Members, with capabilities in virtually every product and service sector of the UK defence industrial base – from ammunition to aircraft components, clothing to communications, security to software.

And I'm very pleased to see 30 of them here today.

Given the regional distribution of SMEs, it's not surprising **(Slide 3)** that we have more Charter members in the South East **(3a)** than anywhere else, but we do have Charter Members in every one of the English regions **(3b)**, as well as in Northern Ireland, Scotland and Wales **(3c)**. And we do visit them! I'm grateful to the Regional Development Agencies and their defence and aerospace trade support groups, who have been important partners in our recruitment efforts. And also to the DMA and other trade associations who continue to provide active support in promoting the Charter.

Adding Value

The services we've developed for Charter Members have to a large extent been driven by what companies have told us they need.

So, for example, we've given particular priority to developing a range of web-based information services - the Charter Member Centre (**Slide 4**) – which provides general guidance about defence exporting (for example export licensing and the 680 Clearance procedure) as well as more specific advice relating to particular markets and opportunities (the Strategic Market Analysis and Orders and Prospects facilities).

Charter members also told us that they wanted early notification of events and other activities. So we've developed an e-mail alert system to bring such opportunities to their attention. And we have a quarterly newsletter – Small Talk (**4a**) - which contains more substantial articles of interest and has also been very well received by our members. It too is available on the web-site.

Another important development over the last twelve months has been a series of focused briefings. For example meet the buyer events with delegations from India (**Slide 5a**), the United States (**5b**), Bahrain (**5c**) and Qatar (**5d**), which Lord Drayson hosted. More general briefings on doing business in Asia Pacific (**5e**) and in India (**5f**). And a week long multi-nation inward mission on Peace Support Operations, at which 30 Charter Companies (**5g**) had direct access to potential customers from 14 countries (**5h**).

We have plenty more events planned – some of which have been requested by Charter Members - including doing business in the Gulf States, opportunities with the UN, another MNIM; as well as more general briefings on export licensing, media handling – and on doing business with the UK MOD, a suggestion made by L D.

Winning Orders

Signing up companies is all well and good, but the reason we're doing this is to help them win export orders. So I'm particularly pleased (**Slide 6**) that from a figure of (**6a**) £15m worth of exports in year one, Charter Members achieved (**6b**) £80m last year and (**6c**) just over £200m so far this year – the latter comprising over 200 separate orders won by about 100 companies. And feedback from Charter Members confirms that DESO had made a significant contribution to this success.

Some of these orders were relatively small, for example power packs for the Canadian Army, water purification equipment for the US Marines and body armour for the UN – small orders but vitally important to the companies concerned. Others were worth several millions of pounds, including weapons handling equipment for the Spanish Navy, training ammunition for the US Army and aircraft maintenance for the Saudi Air Force. It's still a little early to be identifying regional trends, (**Slide 7**) but it is relevant to note that the main customers for Charter Member exports to date have been the developed, high technology markets of (**7a**) North America and Europe – accounting for about two thirds of all sales.

These markets have been the initial focus for many of our Charter Members, in part because the strengths of UK SMEs – flexibility, agility and innovation – are a good fit for the demands of the customer.

Supporting MOD objectives

Helping more SMEs win more export orders is in my view a worthwhile aim in its own right for DESO, but it's now also an important element of MOD's wider agenda for SMEs. In December 2005, the Defence Industrial Strategy (**Slide 8**) highlighted the need for more effective engagement between MOD and lower tier suppliers. Since then work has been underway looking at a number of aspects of the UK defence supply chain and the contribution SMEs make to the delivery of front line capability.

In his first year review of the DIS just before Christmas, Lord Drayson spoke about the importance of a thriving and healthy SME population. The business MOD places with this population - some £1bn each year direct and substantially more through primes – makes an important contribution to this aim - and so too do export contracts.

The Future

Last year we re-launched the Charter (**Slide 9**), modified to reflect what we had learned about the kind of help small companies need in order to penetrate export markets.

Routes to market

We've stepped up our efforts to share market intelligence with Charter Members and to help them come to a realistic view about where there are prospects for export success and the best routes to market. For the SME community, there are three main options (**Slide 10**):

First, direct to overseas government customers (**10a**). This has been the main focus of our efforts to date under the Charter, partly because we have good market intelligence about these customers and their requirements and also because we have experience in dealing with them. We can exploit existing government connections, through DESO staff and attaches overseas, and through their overseas counterparts in London. This enables us to provide direct access to the customer, when it is required or through our periodic 'meet the buyer events'.

The joint venture point on this slide refers to the SBUs efforts to bring together Charter members with common interests – *a kind of dating agency for SMEs(!)* – and the results have been very encouraging. On several occasions, two or more Charter Members with complementary capabilities have got together to win orders. On a larger scale, six months ago, 20 member companies teamed up to collaborate over the design, build and equipping of training ranges – and have since secured £15m worth of exports. And, more recently, an Underwater Systems Group of 6 companies has formed to pursue defence and civil opportunities in a number of countries.

We'll be encouraging more of these joint ventures as the Charter network continues to expand. And we assess that, over the next 5 years, opportunities for direct export sales by SMEs to overseas government customers should be worth about £1.5bn.

Next comes the export opportunities generated by MOD's Industrial Participation or offset policy (**10b**), under which offshore companies place work in the UK as a result of winning contracts from the UK MOD. Our aim being to secure competitive bidding opportunities in markets where there would otherwise be significant barriers to entry. The DESO role here is to work with MOD's acquisition community in negotiating IP agreements whenever there is an offshore bidder on a UK programme. And then to ensure that the commitments made in these agreements get delivered – and they do!

Most are with primes from North America – for example Boeing, Lockheed Martin and Raytheon - but there are also others in a number of European countries.

Full details of these agreements, and guidance about engaging with the relevant offshore primes, is available on the DESO website – or by talking to our Industrial Participation Unit. UK Companies have an excellent track record of offering innovative and cost effective solutions under the IP umbrella, winning some £5-600m worth of new business every year – of which about 40% goes to SMEs. We would expect broadly that level of business to continue over the next five years, so worth about a further £1bn.

And the third main route is working through primes and systems integrators (**10c**) - from UK and overseas. I know that UK primes are criticised by SMEs for the amount of sub-contracts they place overseas. There are of course commercial considerations here and, when it comes to export customers, sometimes stringent offset requirements to manage – so this is not an easy issue to tackle. But there is clearly a benefit to UK plc as a whole (and, as the DIS made clear, to the UK MOD) in maximising the UK content on export platforms. This certainly makes it easier for DESO to deliver full UK Government support for export campaigns.

The challenge with offshore primes is perhaps even greater, since here we may be looking to displace established local supply chains. We have to be realistic about our ability to achieve this but we do have some influence with offshore primes seeking to become suppliers to the MOD. So we can probably help open some doors – and we will be looking to do more in future to help connect Charter Members with such companies. But then it's up to the SMEs to promote themselves as capable and reliable suppliers and build relationships with the primes – which also of course applies here in UK.

...Based on the likely value of supply chain work on the main UK export prospects over the next five years, we assess that a further £2bn worth of business is achievable over that period. This number could be even bigger, if together we can persuade more offshore primes to foster supply-chain relationships with UK SMEs.

These are of course just estimates, but we see accessible defence export opportunities for the SME community worth around **(10d)** £4.5bn over the next five years - about double the current levels of business. We also see the DESO Charter remaining an important vehicle for pursuing these opportunities.

....XXXXXXXXX back to you. [S.40 Personal Information]