

Strategic Partnering: The Emerging Relationship between Industry and the MoD

by *Len Pannett* and *Dean Gilmore*

Len Pannett, a former naval officer, is a consultant in PRTM's Aerospace and Defence (A&D) Practice, focusing on the changes industry and government need for the move to availability contracting. Dean Gilmore is the Managing Director of PRTM's consulting business in Europe, with more than 20 years' experience in the A&D industry. In this article they consider the effect on the UK MoD and the defence industry of the huge transfer of risk from the former to the latter under the new Defence Industrial Strategy.

The nature of military procurement in the United Kingdom will change radically under the Defence Industrial Strategy (DIS), unveiled by the UK Ministry of Defence (MoD) in December 2005. The ultimate goal of the DIS is to ensure the Armed Forces receive the right equipment, both on time and at the best value for money for the taxpayer. Instead of purchasing individual platforms and services as in the past, the MoD will now determine the required capability and pay industry for providing it throughout the life of the equipment. In other words, the MoD will contract for results in the form of the 'through-life capability management' of available assets instead of simply contracting for the assets themselves.

This approach is more appropriate for conducting modern warfare, which requires fewer, more sophisticated assets along with flexibility and responsiveness in asset deployment. Underpinning the whole philosophy of through-life capability management is the premise that by working together, industry and

government can deliver a service at a lower total outlay for the taxpayer.

The strategic and operational implications of the DIS are enormous. In effect, the new approach transfers the risk of development, maintenance and availability of the equipment from the MoD to industry. In the past, the MoD might have bought a long-range radar system from a supplier (along with spare parts to last for an estimated lifetime) and then maintained and repaired the radar itself. Under the DIS, the MoD might instead buy the capability 'to detect air contacts at ranges over 100 nautical miles with an availability (system operating time) of x percent'. The winning supplier will provide the radar, as well as maintain and repair it throughout the lifetime to meet stated availability and performance targets – or risk not being paid. Thus, the DIS heralds the largest shift of risk from government to industry in the history of the armed forces.

'The DIS heralds the largest shift of risk from government to industry in the history of the armed forces'

The new approach poses significant challenges for both the 'provider' (industry) and 'decider' (MoD). Industry must deliver the precise level of equipment and service that the MoD requires, while providing a fair rate of

return to its shareholders. The MoD must transfer many of the tasks at the heart of warfighting to civilian personnel while ensuring fighting capability is undiminished. As issues of capability building, public-private partnership and contract management arise, both sides must build a relationship founded as much on mutual trust as legal contracts. Otherwise, the promise of the DIS may disintegrate into a self-defeating cycle of recriminations and retribution.

'Perhaps the biggest change is in the management of the supply chain: suppliers will have to develop an entire suite of supply chain management capabilities'

Ensuring Mission-Critical Capabilities

The single biggest concern for the MoD is to ensure that industry can, in fact, deliver on the contract and maintain warfighting capability. To allay this concern and allow through-life capability to be implemented, defence companies must develop the internal capabilities needed for servicing and supporting complex, warfighting products. This is a major effort that in most cases will require fundamentally new operating models and a new set of skills, tools and processes.

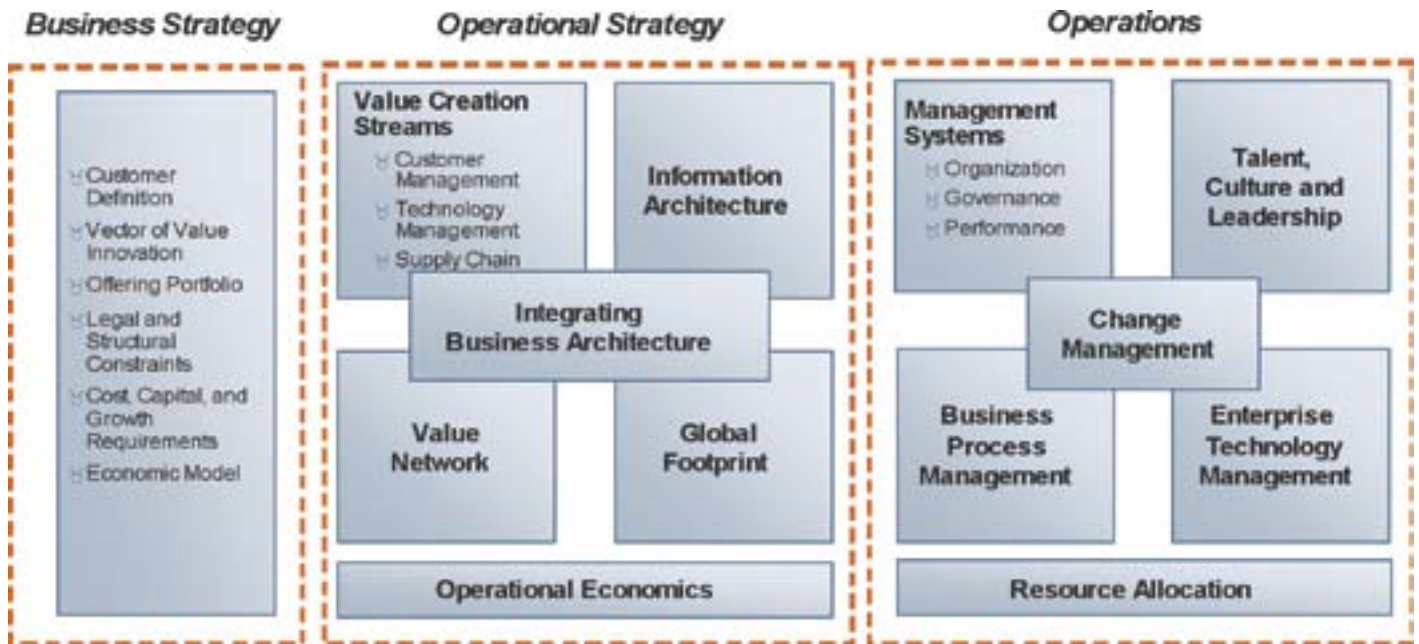


Figure 1: The Availability Backbone [source: PRTM Management Consultants]

Perhaps the biggest change is in the management of the supply chain: suppliers will have to develop an entire suite of supply chain management capabilities. Moreover, they will have to seamlessly integrate their supply chain management with engineering, development, maintenance and partner management. This is a huge transformation which must be very carefully managed – there are so many ‘moving parts’ in this operating model that mistakes are highly likely.

To achieve the transformation, suppliers will need to assess their existing capabilities, compare them with the desired end-state, and understand the extent of operational innovation required to get from here to there. PRTM’s ‘Availability Backbone’ brings together the various elements of the business to deliver the capability required by the MoD at the least cost (Figure 1). Our experience has shown that by connecting separate functions of the business into one seamless model – from customer to supplier and from strategy to execution – companies can improve consistency of solution and service to the customer while reducing costs of support by leveraging cross-platform synergy.

As a result, suppliers can maximise productivity, improve customer service and boost shareholder returns while delivering the value for money critical to the taxpayer.

‘The risks in transferring so much responsibility to industry are huge’

Defence companies can use the Availability Backbone to address key questions, such as:

- What end-to-end business architecture does a supplier need to meet its obligations to the MoD?
- How should a supplier integrate its separate functional operations into one seamless availability solution?
- How can a supplier gain advantage through the physical configuration of its operations?
- How can the MoD and a supplier connect their various information systems and share data?

- How can a supplier deliver value for money and meet its shareholder requirements?

An operating strategy that convinces the MoD that a supplier will be able to deliver the required through-life support makes their relationship far more synergistic than in the pre-DIS world. In such a relationship trust now becomes essential to the success of the engagement.

Building Trust

Since defence assets are critical to national security, and since operational failures may have catastrophic consequences, the risks in transferring so much responsibility to industry are huge. The key to success is to build trust and confidence gradually, manage risks proactively, and use the right tools (metrics, processes, organisational structures, etc.) to support the transition.

A phased approach, such as starting with small contracts and then steadily increasing their size as both sides gain experience, will help to avoid any major failures. For example, BAE Systems recently took over the depot-level support and management of maintenance of the RAF’s Tornado fleet, with responsibility

for ensuring that enough jets are available to fly in any given period. The company was already very familiar with the supply of parts, as it had controlled these areas for years at a systems level. It has now embarked on the next step towards supporting the entire aircraft. Assuming BAE Systems succeeds in supporting Tornado, MoD will be able to transfer the support of the whole UK military fixed-wing capability over to industry.

In developing a strategic relationship based on trust, suppliers will become part of the larger team, working closer to the front line to understand and support the warfighters' needs. To that end, the MoD and the Armed Forces must open their organisational structures and management processes to enable this new relationship. This is already taking place on RAF bases, where industry personnel are now working with RAF staff on aircraft to manage supply and demand of spares first-hand, and to provide direct, on-the-scene technical support.

'To establish trust, both parties need access to solid operational data, including data related to the maintenance, repair and use of a given capability'

To establish trust, both parties need access to solid operational data, including data related to the maintenance, repair and use of a given capability, such as inventory levels, asset prices, current and outstanding order books, and past usage records. This information base is necessary to make sound operational decisions, both strategic and tactical, and to realistically estimate the costs of delivering the required service or product. Only then will it be possible to create a robust commercial agreement and financial terms to guide the economic relationship between the parties.

In addition, the MoD must ensure

that the data is current, accurate and precise. However, many suppliers have found that the existing MoD data is often patchy, inconsistent and disconnected – which leads to distortions in inventory information and other areas as well. Since combing through this data to extract the accurate picture is a huge task, the MoD and suppliers will need to devote significant resources to sorting out the problem and delivering a reliable data set.

'MoD needs to describe what it will do, what it expects industry to do, and what the boundaries of civilian and military support are'

Understanding Requirements and Roles

It is the MoD's responsibility to present its requirements to industry clearly and comprehensively. This means moving beyond the bounds of equipment requirements into expected life cycle requirements. Simply put, the MoD needs to describe what it will do, what it expects industry to do, and what the boundaries of civilian and military support are. To define these requirements, the MoD first needs to analyse its own processes for operating, maintaining and upgrading equipment, both existing and future. This analysis should consider the needs of various stakeholders, including the personnel involved in operational logistics; the support staff who will operate, maintain, upgrade and support the capability; the warfighters on the front line; and their commanders who will be using the capability. While the MoD's current focus is on the operational aspects of a capability, this emphasis must change to help build a complete picture of how industry can best provide a through-life capability support.

For its part, industry will have to move away from looking only at

the specifications for hardware and software. As suppliers will now be paid on the basis of results, the designs to meet a capability requirement need to include the wider aspects of supply chain and capability support. For example, to maintain high levels of availability, industry must know how spares will get from the 'factory' to the warfighter in the 'foxhole', i.e. areas suppliers previously had no visibility of. Winners will be those companies that can prove to the MoD that they have considered all requirements and can deliver a through-life capability – rather than just the CADM part of MoD's CADMID¹ procurement cycle.

'The challenges are daunting, but the potential benefits are enormous for all the stakeholders involved'

The Road Forward

The DIS will undoubtedly change the nature of defence procurement in the UK. In order for the strategy to succeed, the MoD and industry will need to develop a strategic partnership relationship based on mutual trust. The MoD will need to provide all the information necessary for suppliers to scope and deliver the capability. For its part, industry will have to develop fundamentally new operating models to deliver the new services required. The challenges are daunting, but the potential benefits are enormous for all the stakeholders involved – the government, the defence industry and the country at large. The early movers are already slowly maturing in the new acquisition landscape, creating a bond of trust that will be hard to compete with in the future. Other players must follow suit rapidly if they are not to fall too far behind. ■

NOTES

¹ Concept, Assessment, Demonstration, Manufacture, In-service, Disposal