

# **ISTANBUL BOSPHORUS SUMMIT**

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## **Adapting To A New Security Environment: Challenges And Opportunities For Defence Industry**

**By**

**Lady Olga Maitland, President, Defence and Security Forum**

My remarks are based on many years associated with the defence sector including witnessing the defence sector in Algeria, a growing market with a massive dedicated budget.

The security environment globally is never settled and looking to 2018 we face a continuing turbulence globally.

All this means increasing defence budgets. The US leads with China ramping up with Russia and Saudi Arabia following behind.

Growth markets are the Middle East, Asia (India is a serious buyer with a budget of US\$50b in 2016 and growing. They signed 15 contracts with foreign vendors) and the in the Far East, South Korea, Japan, Indonesia have all bumped up defence spending.

Overall: total global spend in 2015 was US \$2billion and growing

**The shopping list is changing:** today the focus has moved away from heavy duty hardware such as tanks to new technologies such as

drones,(they are flying off the shelves, the demand has never been so great) , cyber security, surveillance systems, high resolution satellites and so on. Indeed, in the UK the Defence Ministry is increasing its spending on cyber security at the expense of men on the ground: indeed, thinking includes cutting our prime Royal Marines by 1,000 and slowing down on F35 stealth jets.

### **Times are changing.**

Contractors have to adapt more readily to host countries needs with ever closer relationships. Add to that fierce price competitiveness.

### **They also have to offer more. Hardware itself is not enough.**

Flexibility can mean effective joint ventures in accessing new markets and reducing competition, sharing the risks and the costs e.g. Boeing and TATA Advanced Systems for manufacturing fuselages of Apache helicopters in India. In Japan Lockheed Martin, Mitsubishi and Sampa Kogyo formed a joint venture. Flexibility and co-operation with other brands can enhance the chance of a contract.

### **So how should a defence contractor approach a new market?**

Here are my critical rules:

1. **Think Long term.** Investment and partnerships with the local economy are now a cost of doing business long before a defence contract is signed. Gone are the days when a company can just rock up and bid for a lucrative contract. Some have already seen this as a winning strategy.
2. Take **Rolls Royce** who established a training centre in India for 1,500 locals – just one part of a deep involvement in the country that the company believes will bolster its defence aviation business. As India places more emphasis on its 'Make

in India campaign, it will respond more favourably to a joint venture. Generous CSR budgets, corporate and social responsibility showing commitment to the community pays huge dividends, provided it is reliable and sustainable...

3. **Study history.** A fine-tuned appreciation of the political, economical, and historical terrain is essential. This includes a broad understanding of its 'burden of history', past conflicts, the country's current political and military decisions towards regional issues. **But in doing so, keep right of politics. It is more a case of understanding local dynamics.**
4. **Know whom to know.** Developing the right relationships, understand the procurement process, tendering, which staff in the Ministry of Defence or Finance to touch base with, who must be cultivated, who is the decision maker? **Be careful**, it is often **middle management** who are the key. Time spent with cups of tea are a huge investment or else your chances might be torpedoed. This is especially the case in identifying new projects not yet on the official radar screen.
5. And into this equation it must be made clear right from the start that **bribery and payments** are out of the question. Culturally in many places this is standard practise. Brand reputation depends on a clean process. You need to be trusted. Companies caught up bribery and corruption pay a very heavy price in fines and consequences.
6. Make the case right away at the beginning that success payments will not be made. **The challenge is with agents and**

**JV partners.** Do not let them work in isolation. Manage the process and make it clear you will sharply end the relationship if they break the rules. It means a lot of supervision but aspiring local agents desperate for your engagement can and do rise to the occasion.

7. Develop Relevant capabilities. Evolving from a direct export model to 'localization' means some defence companies need to need to be able to **co-operate with and train** local companies
8. **This can be extraordinarily hard work**, the local workforce would most likely need upskilling and understanding the disciplines and demands needed. They are starting from scratch. Out of any group of 20, expect two to be star workers, 10 to be ok, and of the final group, at least two or three will drop out. Then the good ones get poached by others or go overseas for better jobs!
9. Decide on what intellectual property to share and what to develop. There is a natural tension between a foreign government's desire for transfer of technology skills and knowledge and the defence contractor to control their intellectual property. But some transfer can be good public policy for a long-term relationship.
10. Finally, contractors have to learn to be more flexible especially in emerging markets. Will they continue to be exporters engaged in transactional relationships or will they

evolve to become long-term partners and active players in the local economies? In my view, success depends on a smart migration into this new, less transactional role. Fresh operating models are tough, but to compete there is no choice.

## CONCLUSION

For the defence contractor, there is no short cut to the 3 Ps.

Presence

Patience

Perseverance