

Defence Policy Review – input from the defence industry

APRIL 2023

KANTAR PUBLIC



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Background and method

Background

As part of the Defence Policy Review, the Ministry of Defence and the New Zealand Defence Force sought input from the defence industry, key partners, and other interested parties.

This document summarises the input provided by the defence industry. A separate document summarises the input from the key partners and other interested parties on the topics they were asked to provide input on.

The defence industry were asked for their input on the following topics:

1. Challenges faced when working with Defence.
2. General (non-Defence) business challenges that impact their ability to work with Defence.
3. Suggestions for how Defence can better work with them.
4. Opportunities they see for their business with Defence.

Method

Input from the defence industry was sourced in two ways – one-on-one in-depth interviews with selected members of the defence industry and an online survey available to all members of the defence industry.



ONE-ON-ONE INTERVIEWS:

15 INDUSTRY LEADERS



INTERVIEW DURATION:

40 TO 60 MINUTES



INTERVIEWS CONDUCTED:

14 MARCH TO 4 APRIL 2023



SURVEY PROMOTED USING:

DIRECT COMMUNICATION WITH CURRENT DEFENCE SUPPLIERS AND VIA GETS



SURVEY AVAILABLE TO COMPLETE:

8 MARCH TO 4 APRIL 2023



NUMBER OF PEOPLE:

98*

*98 completed (completed being defined as typed at least one response to an open-ended question).

Summary of key findings

The defence industry were asked to provide their thoughts about the challenges in working with Defence, solutions to those challenges, and opportunities for the future. Despite this focus on problems and overcoming them, many participants were very positive about their experience working with Defence. For example:

“I'm very positive about it [the relationship]. I think if you take any message back, despite my criticisms and so on, which is just being honest, I'm extremely positive about it, in terms of the strength of the relationship we've got and the trust that we're building.”

1. The defence industry are facing their own challenges: shortage of skilled labour, supply chain issues, increased costs due to inflation. These challenges do have an impact on their ability to work with Defence (see point 2a for an example), but all those who participated do want to work with Defence.
2. Industry identified a number of challenges working with Defence. The two most important (impactful) are:
 - a. A lack of clarity on Defence's long term needs. Not knowing what the potential pipeline of work looks like makes it hard for a business to invest in the capabilities required by Defence and have resources available to respond when Defence does issue a tender. The lack of a pipeline is magnified by industry's current shortage of skilled labour.
 - b. Not knowing who to engage with and, relatedly, an ability to discuss or clarify requirements. Industry feel that if Defence was more open to discussion it would save them time, money, and help them plan for the future – e.g., allowing them to avoid going down the wrong path in tenders or know when a tender might be coming. They also feel discussion could lead to better outcomes for Defence as they could understand Defence's appetite for a solution outside of what was asked for in a tender.

Summary of key findings

3. Some of the other challenges industry has when working with Defence are:

- a. The procurement process (including the signing the contracts) is perceived to be very long and very time consuming. Participants said that with high inflation their costs can change substantially during a long tender process. They also said that there are often unnecessary requirements in tenders.
 - b. Unnecessary tenders – industry can become frustrated when Defence already have a preferred supplier or that the nature of the tender means that only select companies have the capability to execute the work.
-

4. Industry see several opportunities with Defence:

- a. Partnering more closely with Defence in order to create innovation solutions.
- b. Supporting New Zealand businesses. Some believe that Defence could do more to ensure local New Zealand industry is utilised and protected. Smaller, local companies describe how they sometimes experience challenges when working with overseas Primes. Some think Defence could help New Zealand companies work with overseas Defence Forces (ADF in particular).

Section 1

Strategic partnering and capability building



Interpersonal connections drive industry's strong relationship with Defence.



Industry leaders feel they have a strong relationship with Defence, which is usually driven by what they describe as their strategic and interpersonal relationship with senior Defence personnel.

Leaders describe the strategic partnership as getting better and improving over time.

Leaders who say they have a strategic partnership are positive about their ability to have ongoing strategic discussions with senior Defence personnel, as well as having a direct line to a senior contact when needed; for example, to discuss project challenges or other issues.

Those with this relationship believe that what underpins the strength of the relationship is Defence's willingness to engage in often challenging and robust conversations.

Industry are positive about Defence's willingness to get to know their business, which they believe opens further opportunities.



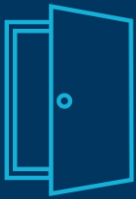
"We are very pleased with our relationships with MOD and NZDF. We have great communication, we're not shy about bringing up challenging issues. It's a very transparent relationship."

"Well, I mean, they are by far and away probably our most important strategic partner. And even though we're a contractor, to say that we've achieved the level of true partnership would be an understatement. But yeah, we're really proud of our relationship with Defence because quite often in our game you're the contractor and you have a place. But with Defence over the years we've built a really strong relationship of openness, trust and we're really good at working through challenges."

"[...name ...] got onsite here and spent 90 minutes with me, teaching me how to understand NZDF more, so I do actually have the person who, if this is problematic, I could phone."

"It's about keeping that honesty going, reminding each other and ourselves of what it means and the commitments and the ways of working. We're very comfortable now, we call each other out respectfully. We pat each other on the back even more respectfully. We celebrate together, we analyse problems together, we solve problems together."

Making Defence available to industry opens up opportunities.



“I mean it can be really simple things like, you know, we had the contract owner visit our manufacturing plant in regional Victoria. That sounds easy to do, but that's obviously flying across in conjunction with a couple of other commitments that she had, and then a three hour drive to the factory, and a factory tour to watch the garments being made and then listen to the factory manager talk about the way the garments are designed. And that this slight functional change in design will make the garment better performing, better looking and cheaper. Why wouldn't you consider that? That wouldn't have occurred if they hadn't made themselves available.”



Many in industry are looking for ways to partner more closely with Defence.



Industry leaders who feel that their relationship with Defence is less strategic describe actively wanting to establish closer and more strategic relationships with Defence.

Some describe having strategic partnership agreements in place, but describe how these partnerships fall down in practice. They describe being left out of meetings and out of important discussions.

Broadly for these leaders, the underpinnings of a strategic partnership with Defence need the following elements:

- Direct access to decision makers.
- They want to understand the challenges Defence have, above and beyond immediate project needs.
- Long-term forecasting of needs to allow planning.
- Trust in industry's ability to add value to Defence.



“What is a strategic relationship? We are in the middle of trying to work that out. So, it’s pretty much about giving me access to your people who are making business decisions for the next 18-24 months. What are the challenges they have. Then from my perspective, I can make sure we have people and solutions and staff around to make that a reality.”

“Defence has strategic partnerships, mainly with their repair providers. So the dockyard, the air base and linen. We have a strategic partnership agreement. It somehow doesn't live at the same level and so when strategic partners get invited along for meetings, we don't get invited along and they've never explained that to us. But [other companies] get publicly described as their strategic partners, whereas [our company] has a strategic partnership agreement that's kind of a bit quiet, you know and I don't know why that is and I can only assume it is a different kind of partnership agreement, maybe it's not seen as the same level.”

“For example, if someone picked up a laptop in Afghanistan, and they want to run it through the translation engine, but that’s probably classified, so you might not be able to do that, but in our world, that’s what we do. We can do cognitive services which is object recognition type stuff, so let me have access to what it is you need from cognitive services. If you gave us access to that, we could help you with all that kind of stuff in the data. That’s the kind of stuff we go globally for defence forces. So in order for us to do that, you have to trust us with some of that stuff.”

Industry want to expand capability to meet Defence's needs.



Industry are not immune to the challenges that many suppliers are facing in terms of supply chain and skill and labour shortages.

However the overwhelming messages from industry is that despite these challenges, they believe they are underutilised by Defence. Most in industry are confident in their capacity to grow Defence as part of their overall business.

Industry are willing to redeploy or grow internal resource to meets the requirements of Defence.



"I don't get the sense that people inside the Defence Force are thinking about starting their own defence technology companies, and I would like more of them to think that. I know that Defence want to retain their own people, but I want Defence to retain their best people for a time, but then those who are best fit to go out and create something amazing."

"I don't think there really are any constraints, rather just constraints in time. NZDF are a single digit percentage in terms of potential customer for our total portfolio. If I compare to some of our other customers, like oil and gas and grid providers, these other clients are a bigger part of our business. So if I was spending time on alignment, then these companies are more likely to be where our limited resources would get focussed. But for those companies where Defence is a primary customer, we would look to accelerate the level of engagement there as well."

"Defence is currently 15% of our business, but we could easily build it to 50%. We are 60% owned by a [overseas] company, so it's not like we can't get the capital if we need it."

Section 2

Challenges in working with Defence – I

The industry leader discussions identified ten general challenges in working with Defence – these are described in-depth in this section.

Lack of clarity of requirements in long-term defence forecasting is hampering industry from building capacity and capability.	Defence can appear siloed, and knowing who to talk to within Defence can be a challenge.	Industry capability is slowed down by what industry see as an overabundance of caution.	Lack of clarity around internal Defence processes and uncertainty regarding project timeframes.	Industry want more clearly defined demarcation of Defence roles and industry roles.
Industry believe they are better placed to build resource and capability.	Industry see the Defence tender process as out of step with other government departments.	RFP timelines and contracts terms can be challenging.	There is some contention around sole resourcing and market competition.	Defence is slow to respond once a contract is in place.

Lack of clarity in Defence's long-term requirements (and to a lesser extent short term requirements) is hampering industry from building capacity and capability. Industry leaders say they need a pipeline that projects Defence's needs 5 to 10 years ahead.



There is a perceived inability for Defence to communicate their future requirements to industry, which is constraining industry's ability to plan and react to Defence's needs.

Industry are willing to invest in the appropriate workforce capability, technological innovation and infrastructure that Defence need, but need some certainty that there will be demand for the capability they build.

Industry leaders believe Defence's inability to communicate long-term requirements is because they are working with short term budgets and lack certainty themselves. Some of the industry leaders suggest long term budgets (five to ten years) need to be set.

Most of the industry leaders spoken to said that this lack of future certainty/lack of a pipeline was the biggest challenge they faced working with Defence.



"Clarity of requirements is one of their big work-ons. That side needs to be resourced and prioritised at Defence properly. That is missing, and really important, from an industry point of view."

"When we know where Defence are spending money, it gives us a clearer sense of where we need to be investing in our business, what capabilities we need to be investing in. Likewise, it would be great to have signals about where Defence plan to retain their own capability."

"I think it would be better for New Zealand Defence is to have more long-term budgets than one year at a time. I come from a country where we move to 5 year budgets, and now they're up to 10 years. So you have the ability to think over the longer term and they're not going to Parliament every year for money and negotiation, and then they don't know what to do 12 months ahead or 24 months ahead."

"Provide a better level of service for Defence. Now how does a public and a private agency join and invest in something? Well, the private agency has confidence that it's got a pipeline of work or that it can reasonably expect to be the winner of the pipeline of work. And so it invests in a capability and having won that pipeline of work, then invests in the development of capability."

"You start talking about the next 6 months, 12 months, 24 months, these are the known planned things, and then when the unplanned thing comes along, you're already on that path. So if a country invades another country, we'll pick up our laptops and hope like hell that someone else is in charge, because we're not in that capable space that we could be."

Defence can appear siloed, and knowing who to talk to within Defence can be a challenge.



Industry leaders without an interpersonal contact person at Defence, describe knowing who to approach in Defence as challenging.

This is experienced most strongly at the beginning stages of the relationship before personal relationships are built.

The way different branches of Defence operate is varies, and some industry leaders describe Defence as being siloed.

However it also occurs in the transition of contract responsibility from MoD to NZDF. Industry leaders describe being confused by who takes responsibility for contracting issues or changes within Defence. It's not clear who decision makers are, which adds undue complexity to the process.



“The initial struggle with Defence was knowing who on Earth to talk to. We know we supply things that they would like and but there's not one door to knock on where there is actually there. There is now the liaison people who are really good at connecting you up. But back when we first started it, it was a it looked like this monolith with no way in.”

“But you know, again it comes down to, you know, being the old married couple, doesn't it? You get entrenched in your ways and your views and so on. And if you're working separately, the Navy over here and the public service are over there and sometimes they come together but not very often. And the contract is always over there. It just doesn't work. So you physically integrate them and put them under a single command structure.”

“Once the contract goes from MoD to NZDF, to request contract changes, we're not clear on where to do. That adds complexity into the decision making cycle.”

‘It's a real eye opener how siloed Defence are as groups, the Navy, Army and Air Force, how different thinkers they are. Looking from outside, you think its Defence and it's one consistent thing, but it very much isn't.’

Industry capability is slowed down by what industry see as an overabundance of caution.



Industry's ability to operate at it's full potential is sometimes hampered by the Authority to Operate. Industry describe the policy as slow to catch up with the operational need for defence.

Some industry leaders describe this as a 'culture of secrecy', in which a 'mindset' of keeping state secrets is unnecessarily transposed onto their commercial relationships.

Many leaders describing wanting a more 'trusting' relationship. This includes trusting partners with data information and long term strategic plans.



"In their terminology it's authority to operate... a lot of it is policy related, and the policy is slow around that. We can't really be effective, because we can only get tiny bits of open source data, because we need to go through this policy to make sure it's tested and checked and vetted and that kind of stuff."

"It's quite a big issue for us is when we are doing things that are secret. We're part of the Defence Industrial Security programme and so we are allowed to put people forward to get security clearances. That's very helpful. It still takes a long time and there's still a problem with recognition of security clearances between Australia and New Zealand. But that's not Defence's problem. That's our problem with Defence in Australia."

"Our struggle is for them to get some of the stuff we are showing from concept, and get it into production. When you think about bad floods coming through. Auckland, BOP and Hawkes Bay. If you fly a plane across the top of that, and you provide us with the data, we could very quickly help with where people are. That's kind of what we do for other defence forces and we've shown NZ Defence that we can do it and they say 'yep, yep, got it', but we're stuck in the middle of 'I can't quite trust you, I can't quite give you the data'."

Lack of clarity around internal Defence processes and uncertainty regarding project timeframes.



There is a lack of understanding on what happens ‘behind the ‘scenes’ at Defence, and frustration around what they see as ‘systematic and process driven’ blocks.

Sometimes an idea will be discussed and agreed to by Defence, which never eventuates. Often there is no communication as to why, and it simply doesn’t occur.

Otherwise timelines become unexpectedly long, with multiple stops and starts. Often these delays cause significant financial burdens for industry, practically if the project involves a capital investment from industry.

Often industry describe waiting for Defence to ‘catch up’.



“If they were clear with exactly what we need and when we need it. Say for instance you needed a laptop, we have laptops and they are made in the right country. An example is that Oranga Tamariki wanted 6,000 of those last year and could only turn up with a PO two weeks before the financial year, and because we were all very clear, I could get them into a country in the week. That’s a good example of what we can do if we’re clear about what we need and when we need it. I haven’t been challenged like that, from a Defence perspective to deliver anything within a quick period of time.”

“It’s systemic. You talk to people who are fantastic and you know right from the Chief of the Air Force, all of his team. They’re really good to work with and they want it to happen ... but there must be tricky things behind the scenes that we don’t understand.”

“NZDF took a new approach and got out ahead of the arrivals of the P8, and kudos to them for doing that. It was the first time in our experience that they were ahead of the game.”

Industry want more clearly defined demarcation of Defence roles and industry roles.



Some in industry believe that Defence should be responsible for building defence capability and disaster response only, and believe that industry are better placed to fulfil all other functions.

Some industry leaders feel that other government departments are further along in doing this, and that Defence is late to respond.

There is a sense that Defence try to take on as much as they can, and only involve industry when there is a capability or resource gap, rather than looking at the most cost effective option.

Industry see an increasing role for platform stewardship, which is now more prevalent with other defence forces globally, which they believe can address Defence's resource and capability constraints.



“Waka Kotahi, were very good at this, you know, working out what is our job and what do we want from industry and let's not pollute that. Defence have been late to the party than many other parts of government, and it kind of shows, you know, there's still a little bit of an attitude of 'let's try and do as much as we can ourselves, and then we'll involve industry'. You know industry is a valued partner, industry is important. But do Defence say 'what is the most cost effective way to get this job done and what is the right mix of our people in industry to get this job done?’”

“Industry can see where the problems are, and where Defence needs help. Defence can't see it themselves, or otherwise they can't do anything about it. Defence is hurting. We can help, but it's just not getting through. It's all about resourcing, maintenance and engineering, that can all be done by [company name].”

“Industry can be brought in for platform stewardship, that's where industry can help. We do that a lot in Australia, we are platform stewards, and we could be doing that more for New Zealand.”

Industry believe they are better placed to build resource and capability.



New Zealand has a small pool of people. Industry poaching from NZDF not the solution, although inevitably this happens.

The two to three year posting cycle of staff is challenging for industry, who feel like the credibility and good will they have built can be lost when Defence staff move to another posting.

Industry believe they are better placed to attract talent with the skills needed into New Zealand and are willing to build skill capacity needed by Defence, if they have better sight of the Defence pipeline to better ascertain where to invest.



“Defence people are fantastic, and really good to deal with. One of the main issues with Defence is that the people you work with leave after 3 years. What we find in industry, it can take us two or three years to establish credibility in a good relationship and then after that we can really start working well, the poor people in Defence that we work with they’re moving on before they even really get a chance to understand what we can do. Then we’re back to square one again with the next person who’s in the role. So the ongoing benefit is hard to deliver.”

“Sometimes getting the skill in country can be complex and so you know we’re trying to make ourselves look attractive to support Defence and support [company name] on the new P8 aircraft. So we’ve gone out and hired some people from the P8 program in Europe and to brought them into New Zealand.”

“Industry can deal with resourcing more easily than Defence and so you know, uniform resourcing is a complicated long term for Defence. But we’re more used to finding people around the world to come and work in New Zealand, so I think you we can build up capability if we have confidence.”

Industry see the Defence tender process as out of step with other government departments.



Industry leaders prefer engagement to begin prior to RFPs and RFIs, and as soon practically possible. They believe they have a role to play in developing the brief, before it gets to RFP stage.

The short lead in time from tenders often doesn't give industry enough time to invest in developing the capability needed to best meet the tender.

It can be unclear who the decision maker is in Defence, which is in contrast to industry's experience with other government departments.



"We do deal with a lot of large organisations and most of our work in fact is with government. We do work for New Zealand Police, Fire and Emergency, the New Zealand Department of Corrections and Transpower. They're all big organisations but it works and there is somebody who can make a decision and it just happens, someone who can make a decision and put the budget to it. They might want to debate the price or add extra services or whatever. But it happens very simply and we get things signed off and we just get down to work. We lack that simplicity [with Defence] in our interactions."

"The poster child of government procurement used to be Waka Kotahi, and these days is the Ministry of Education, who publicise what they want from the market. They tell you what they want and how it's going to happen. What happens when you do that is that industry gears up and invests. So if someone says I've got this big hospital coming up in one year your dance card gets full up and you get a team together and you start innovating at your own expense."

"If you're not transparent, and if you're don't do things when you say you going to do things, or if you're surprised, the market by going 'ta-da' here a new thing coming, then you don't get the best. So you know no transparency and procurement."

RFP timelines and contracts terms can be challenging.



Meeting RFP timelines are a challenge for smaller local industry players. Often they don't have the time and the resource to respond in the timeframes given to them.

Industry believe that sometimes contract terms are not fit for purpose. Bigger companies with more resource have the ability to engage lawyers, but the cost to smaller business to do so is too large. This leaves them carrying additional risk.

Most industry leaders see the need for the addition of sustainability credentials, but question why it isn't part of the evaluation criteria. There is uncertainty on the weighting that this section has to the overall likelihood or winning the contract.



"[The contract] they brought in external expertise to understand what terms and conditions they needed for the contract. They brought in folks who helped them turn what was needed into a reality."

*"The bravo system they use in procurement is s**t house. It's not that easy to use. Things need to be filled out in an antiquated way."*

"Procurement understand our business, but when it gets to the uniform guys, it starts to break down. They aren't as business savvy."



There is some contention around sole resourcing and market competition.



Some industry leaders describe how Defence will go to market in instances where there is already a preferred supplier, or in cases where there is only one supplier with the capability to meet the requirements of the tender, which they see as a waste of money and resource.



“There is usually a preferred provider. But to ensure the semblance of an even playing field, they tend to go to market. Then what happens is a lot of companies spend a lot of money to tender. If there’s a preferred supplier, don’t waste others time and money.”

“I think sometimes the rules of sourcing don’t apply where you know there’s only one organisation that can do it and why? Why are you wasting thousands or tens of thousands of dollars going through a tender process?”

It’s not uncommon for us to be in a position where something needs to happen. We can provide it. You’re probably the only people in New Zealand that can provide it, but the rules say you’ve got to go and get through quotes. We don’t mind competing and we don’t mind having our prices tested, but the end result is a six month delay. So I do find that frustrating.”

“There’s been times when the demand for our services has been so great. We have said, ‘look, we’re not even going to go through a tender process. We’re not going to tender for anything because tenders are almost a race to the bottom.’”

“But Defence procurement is very traditional, three quotes and the cheapest one always wins. As we’re seeing continuously that does not always work. You don’t always get the capability you want and quite often it takes far too much time and so on and so forth. And frankly that was one of the reasons why Defence went sole source on the current contract with us.”

Defence is slow to respond once contract is in place.



Defence are seen as particularly slow and 'cautious' when compared to other government departments and organisations.

The time it takes between becoming the preferred supplier and having a contract to sign is seen by industry as unnecessarily long.

Delays are often unexpected and not communicated well, and can create financial burden on industry.

By the time Defence is ready to move, obsolescence can occur in the technological solution proposed by industry.



"They could go so much more quickly if they if they embrace the idea of forming partnerships in procurement, procuring in a more nuanced way. You can still get competitive tension in your price and you can still get then actually getting value for money."

"It took a long time between 'you are preferred supplier' and 'here's the contract to sign'. We had we'd lease buildings, I'd employed 50 people. We were way down a path. With a whole lot of commercial risk to the business without a document to look at, let alone sign off on and then once we've gone backwards and forwards with our markups and edits and bits and pieces, getting the actual version to sign took an eternity as well. So if there was anything that could be improved as maybe that area and maybe or maybe a bit more transparency as to why it's taking so long or how, when would we expect it."

"In our proposed solution, we could no longer obtain the components because they're obsolete and we're kind of back to square one."

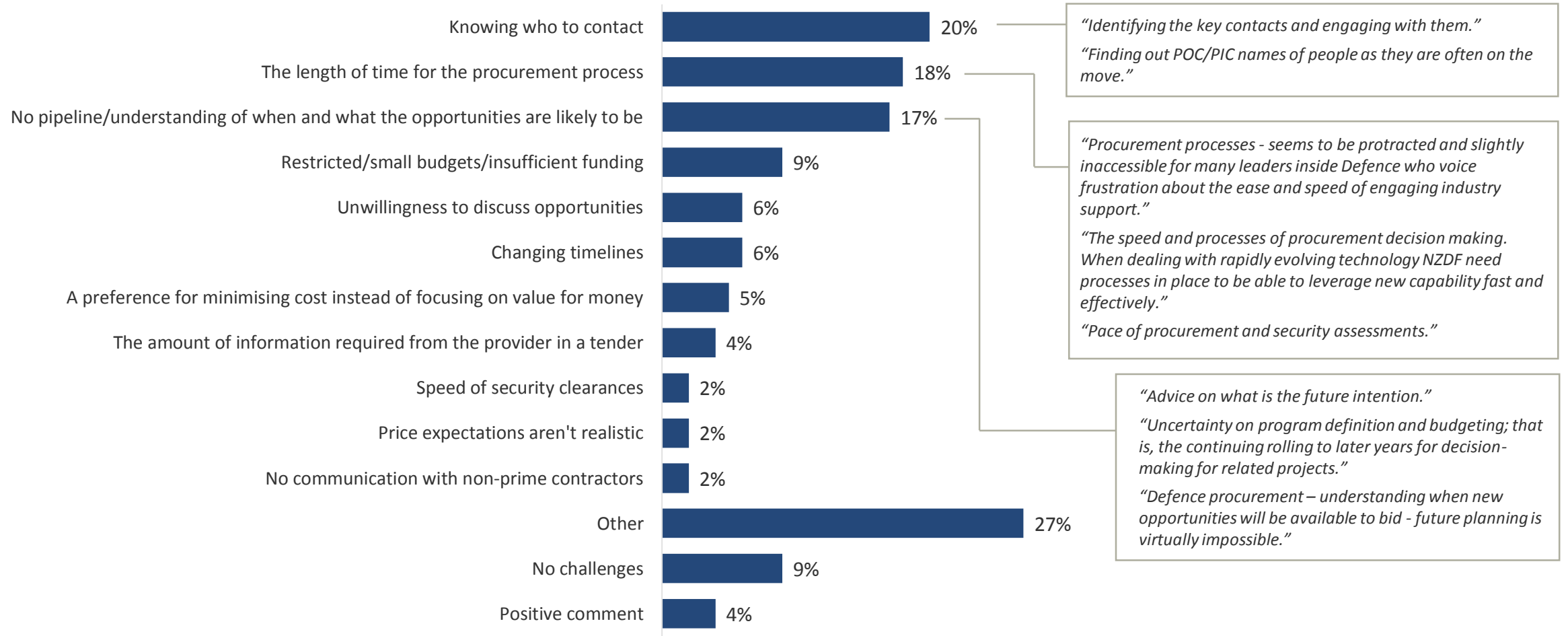
"With very senior and qualified people from finance, commercial through to engineering, we put them in a room for 12 months and they came out with a contract. I don't think that could have happened if they'd run a competition, it would have taken 18 months to three years. I think speed and timing is something. Also I think there's a fixation with the cheapest quote, which is misplaced."

Section 3

Challenges in working with Defence – II

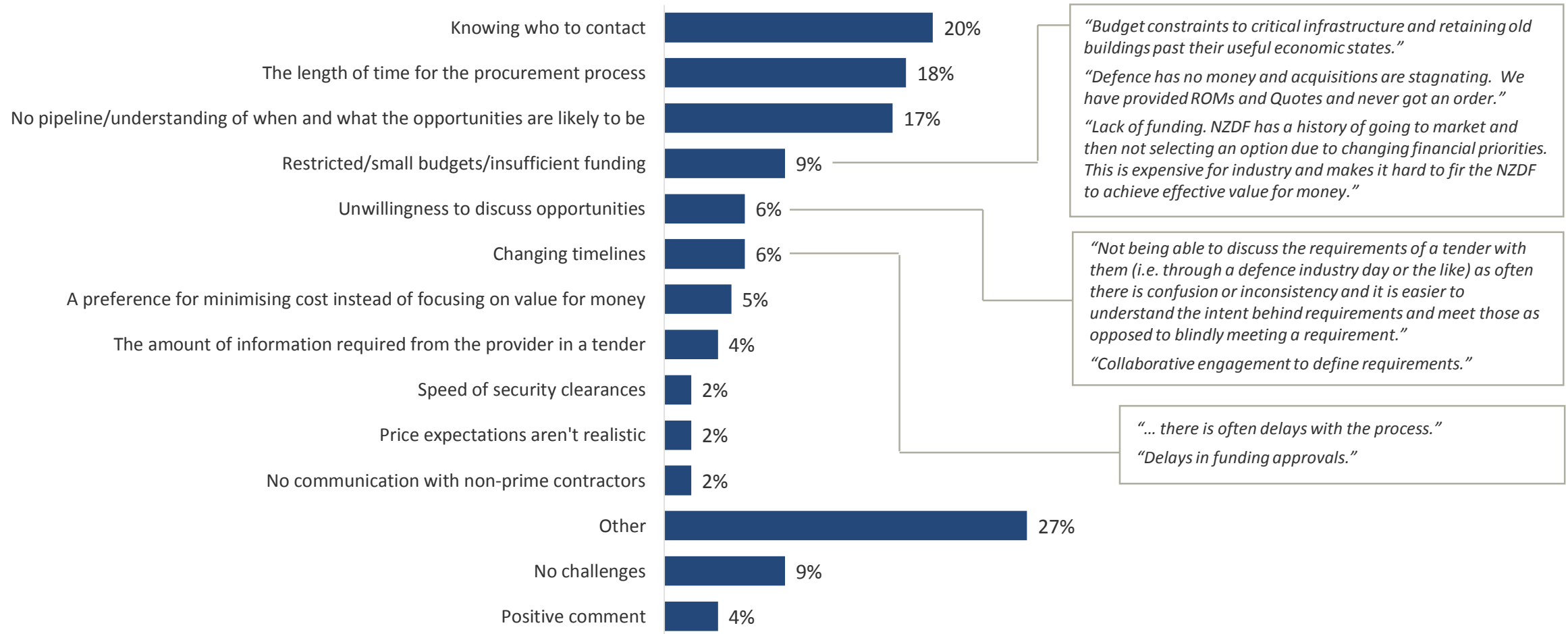


The survey identified many of the same challenges in working with Defence as the in-depth interviews. The most frequently mentioned challenges were knowing who to contact, the length of time procurement takes, and a lack of understanding about the timing of likely opportunities.

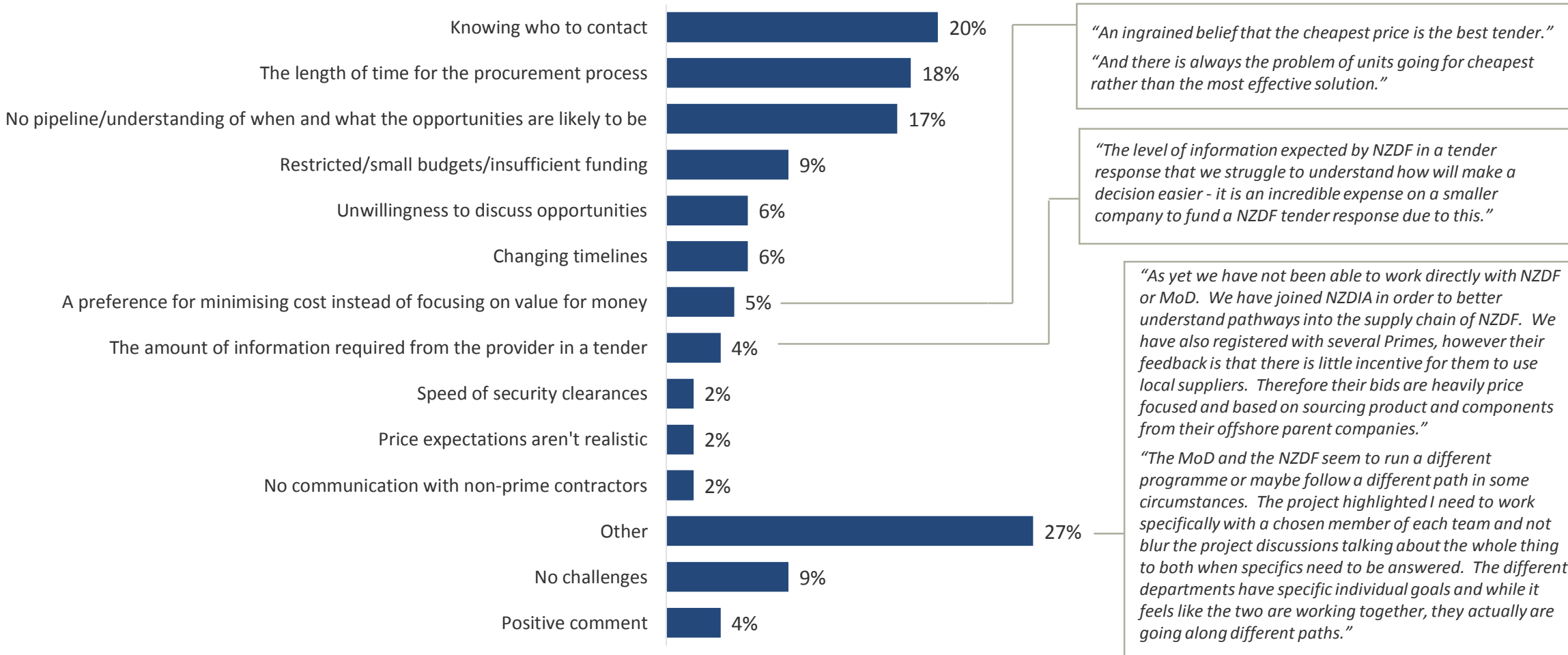


Note. Only the challenges mentioned by two or more participants are shown as separate codes.
 Source: Survey Q2. What are the greatest challenges your organisation faces when working with NZDF and the Ministry of Defence?
 Base: Survey participants who answered the question, n=85.

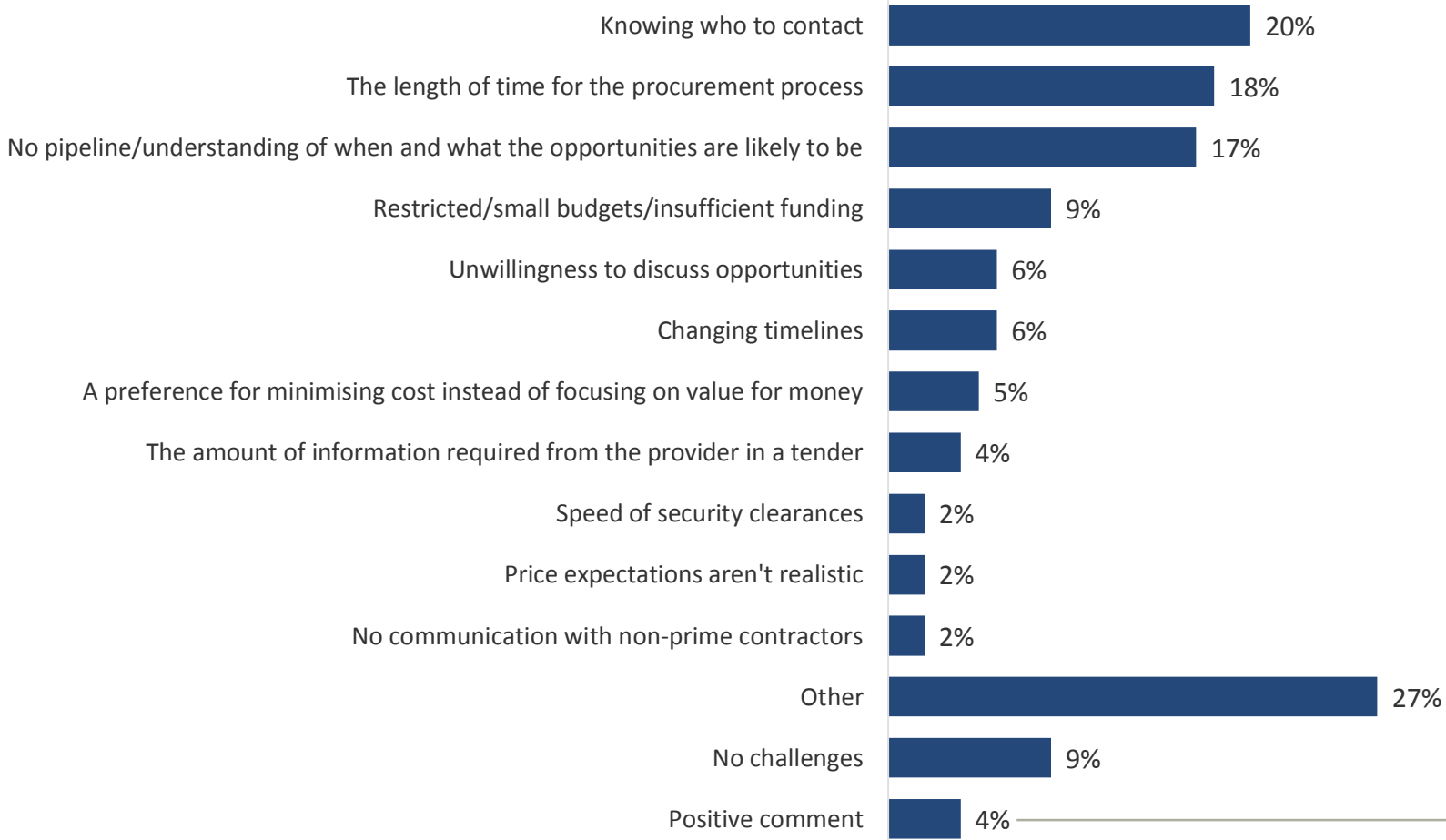
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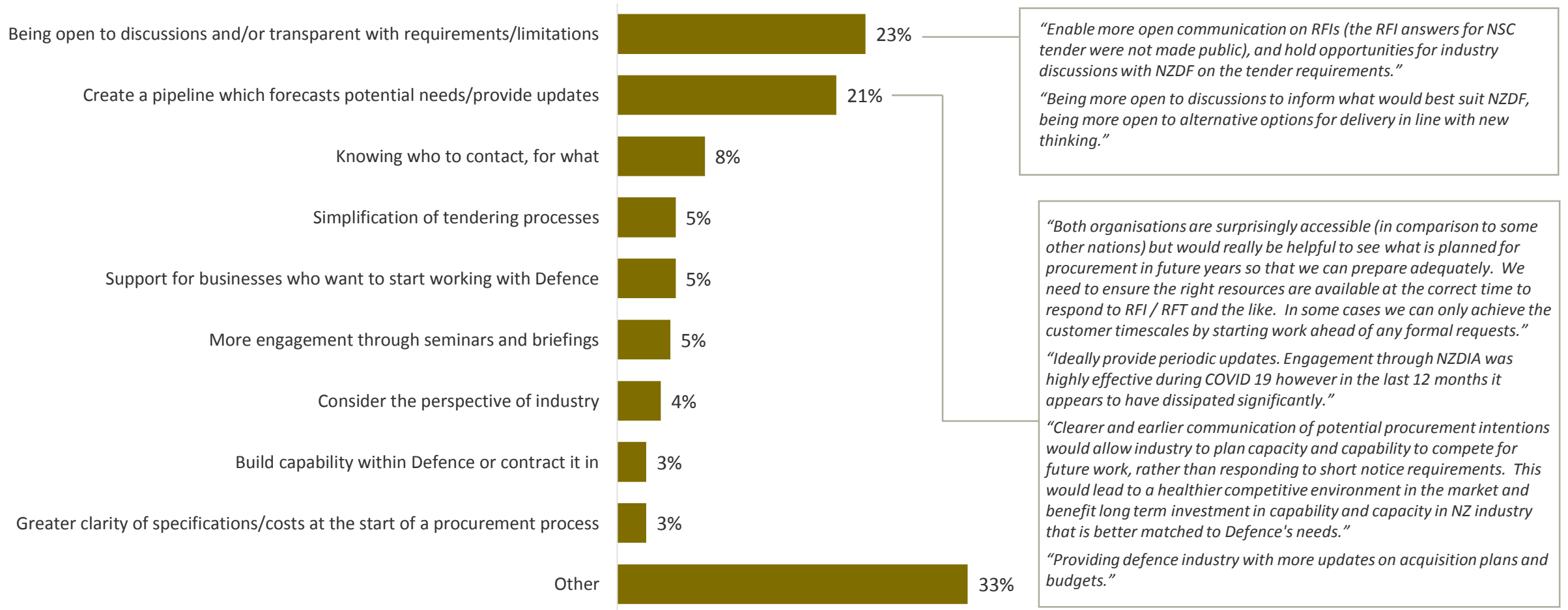


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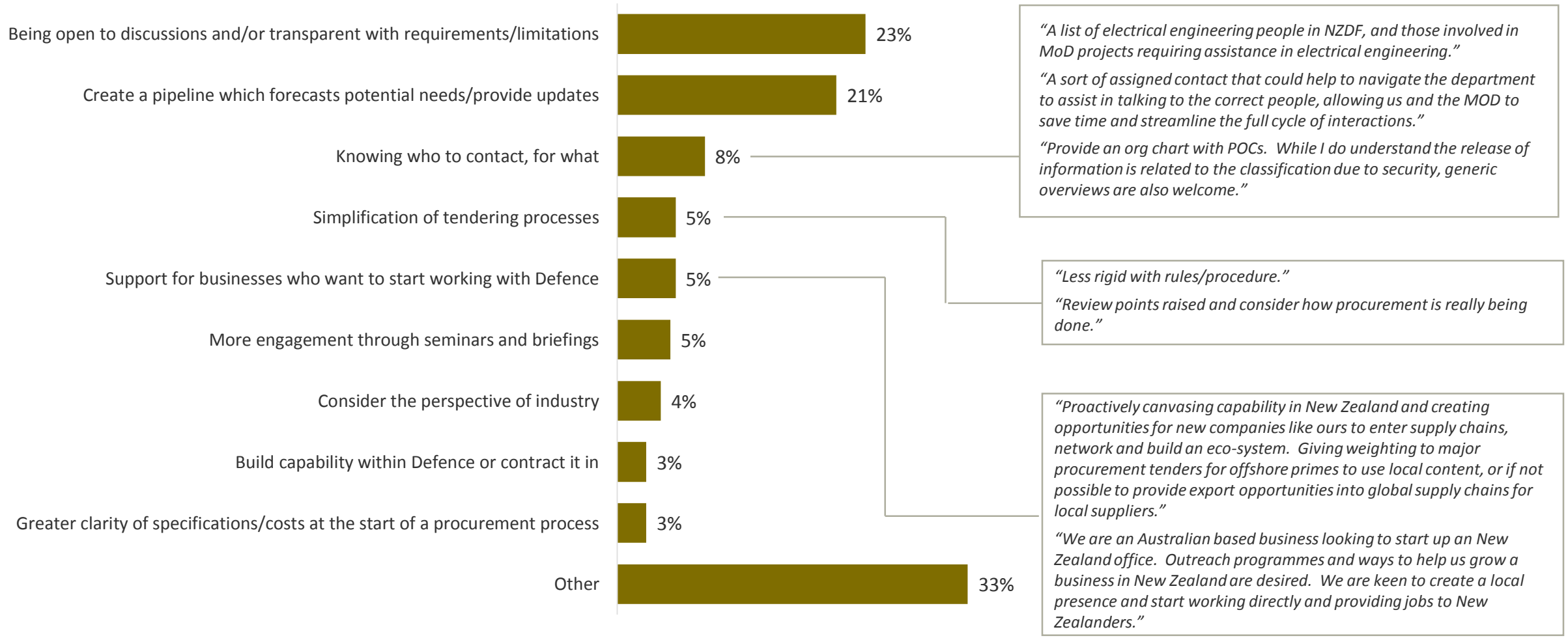


“None - the engagements have been thoroughly professional.”
“None really, we enjoy a very good relationship.”
“NZDF and NZ MoD are a pleasure to work with. Advice is consistent and reliable and staff are proactive and helpful.”

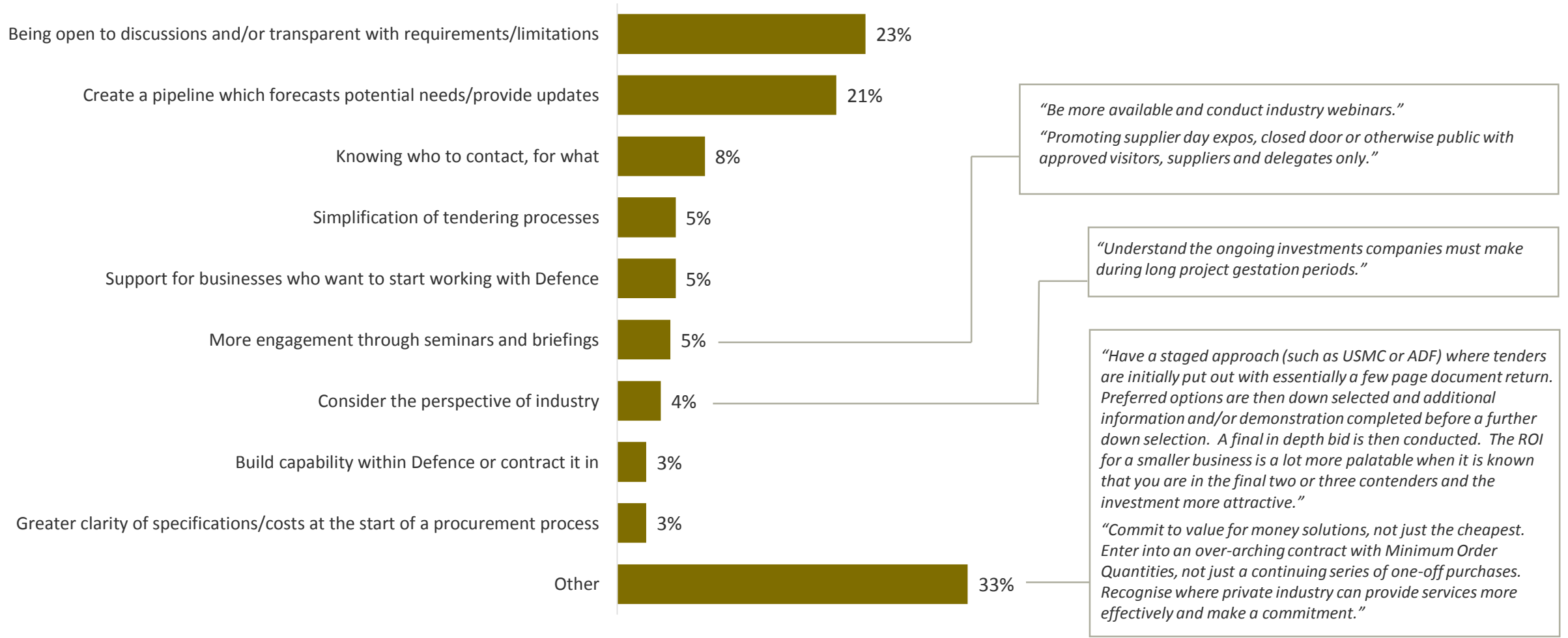
When it came to suggesting solutions to the challenges they're currently facing with Defence, there were two common suggestions: (1) an openness to discussions, and (2) the establishment of a pipeline of opportunities.



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Many of the themes from the solutions suggested on the previous slides, were reiterated when survey participants were asked whether there are any learnings for Defence from the way they work with their other clients.

Relatively few participants made direct comparisons with their other clients, but those that mentioned: (1) easier procurement processes, (2) a more open working relationship, and (3) having clear pipelines of upcoming work.

Easier procurement processes

“CofA has recently developed a panel of suppliers and support partners that allow fast and simplified acquisition of vessels and other assets. We would support such an initiative in New Zealand.”

“Reinvent your procurement methodologies to make it affordable and attractive for respondents (in particular NZ companies) to be involved in your tenders. This can be achieved using such methods as USMC and ADF (in infancy) and enable a quicker turn around and effort on NZDF/MOD behalf also, as well as enable competitiveness in the market.”

“Yes. Under Australian Defence’s Smart Buyer framework, Defence can conduct limited tenders to proven suppliers known to have the technologies being sought. Similar to how Australian Defence procures some items via US Foreign Military Sales (FMS), NZDF could procure some items being purchased by Australian Defence through commercial arrangements via the Government-Government Australian Military Sales mechanism.”

“Compared to other industries, MoD and NZDF are time consuming and expensive to engage with. Procurement processes are long and the cost to participate is therefore significant, often ruling out small or NZ based companies who often don't have the BD depth.”

More open working relationship

“We supply other militaries in the region whom have partnered with us, in a true sense, and provided feedback to improve our products for their applications and use cases.”

“When we discuss matters either in person or via email with other Prime industries, including the Australian Defence Force, we are considered by them to be a valued supplier and we have transparency and interaction across all levels, from on board vessels through to executive decision makers.”

Clear pipelines of upcoming work

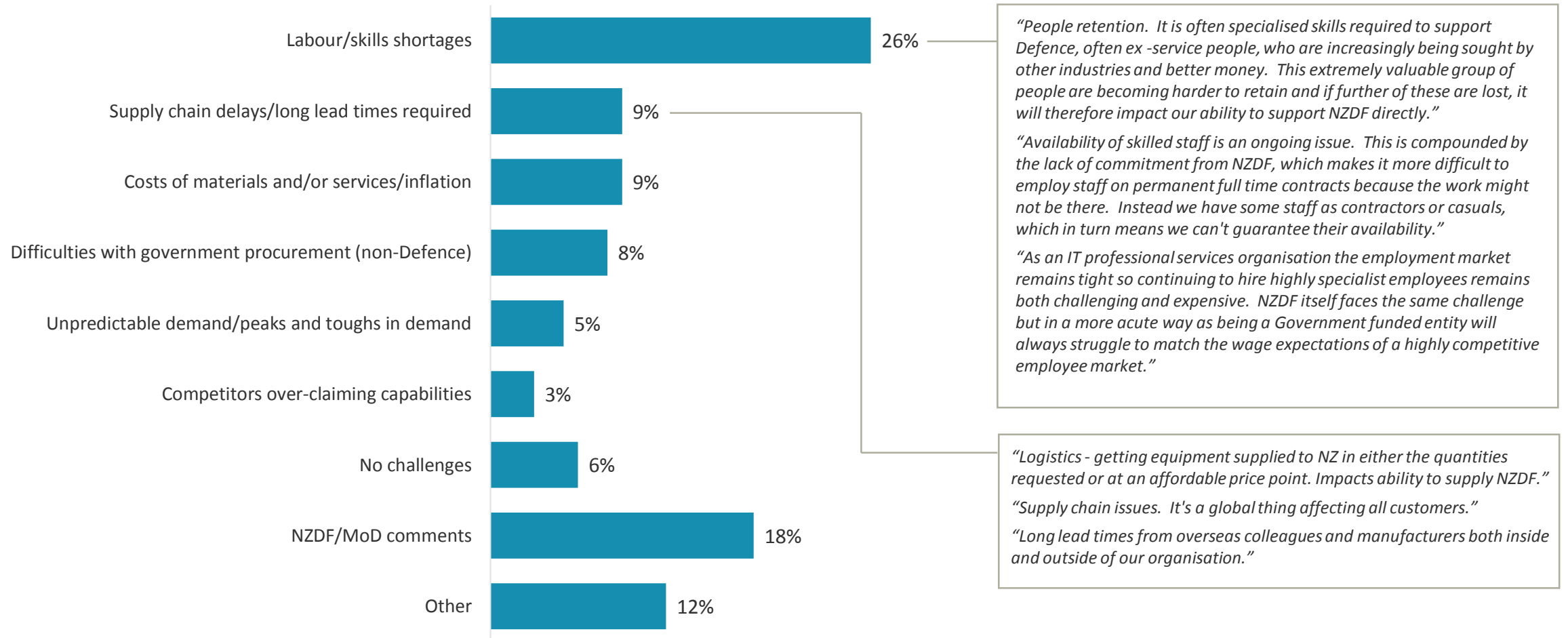
“The ADF have regular Industry updates.”

“Ministry of Education has an excellent regular pipeline forecast process which could add value.”

Section 4

General challenges for the industry

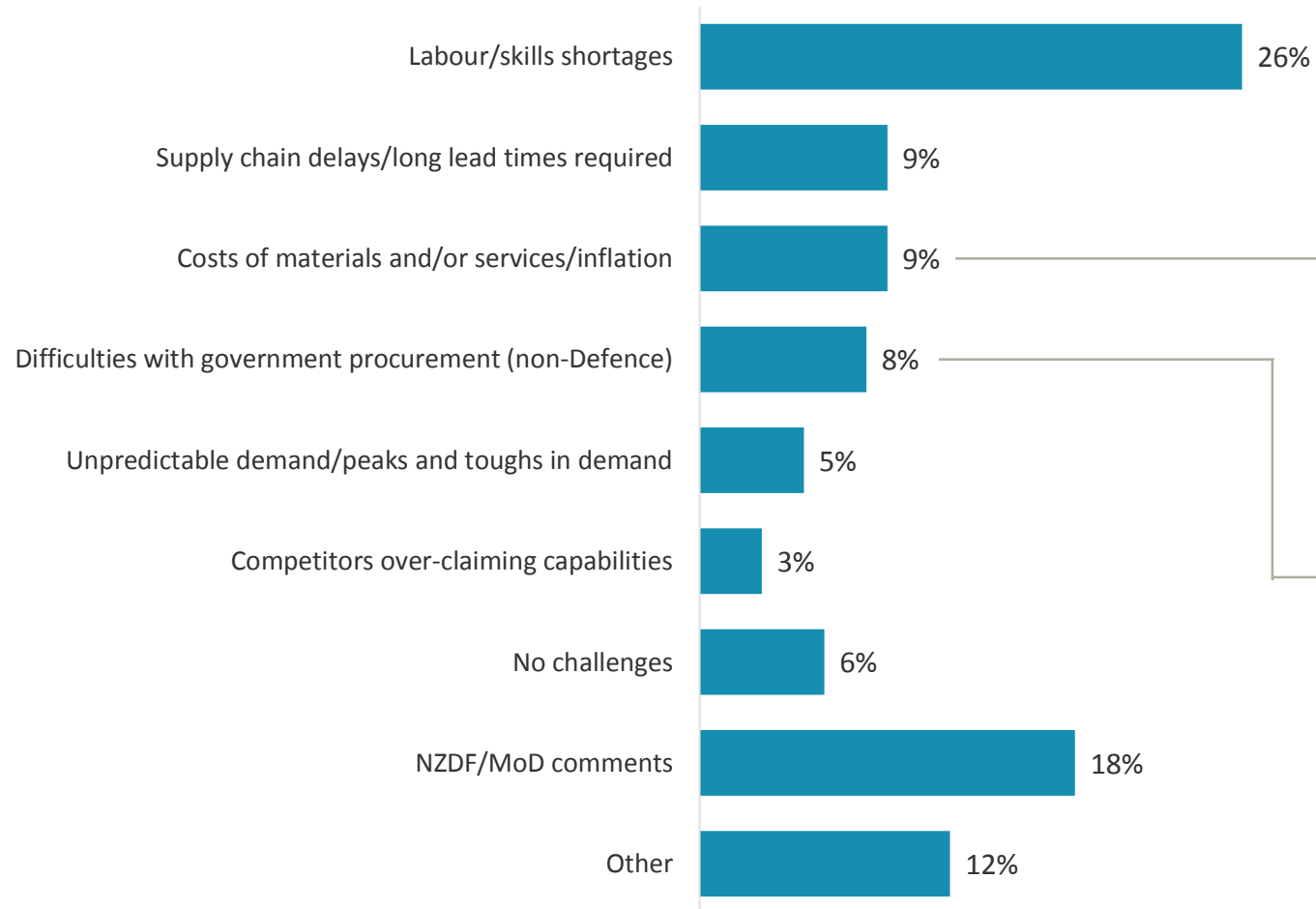
The defence industry are facing general business challenges and these are impacting on their ability to work with Defence. The greatest challenge faced is a shortage of skilled labour.



Note. Only the challenges mentioned by two or more participants are shown as separate codes.

Source: Q5. Thinking more generally about the challenges your organisation is facing (i.e., general business challenges not just those specifically related to Defence), what are those challenges and how are they impacting your work for NZDF and the Ministry of Defence? Base: Survey participants who answered the question, n=66.

[CONT.] The defence industry are facing general business challenges and these are impacting on their ability to work with Defence. The greatest challenge faced is a shortage of skilled labour.



“How to deal with inflation in pricing. Solution could be an index like with the Australian Ministry of Defence and European Navies.”

“Freight and global inflation would be the biggest challenges we are faced with and will affect all clients, not only NZDF, we also note the continued conflict in Ukraine is having an inflationary pressure on a number of specialist operator products.”

“Extremely low profit margin due to exponential increase in operating costs and raw material costs.”

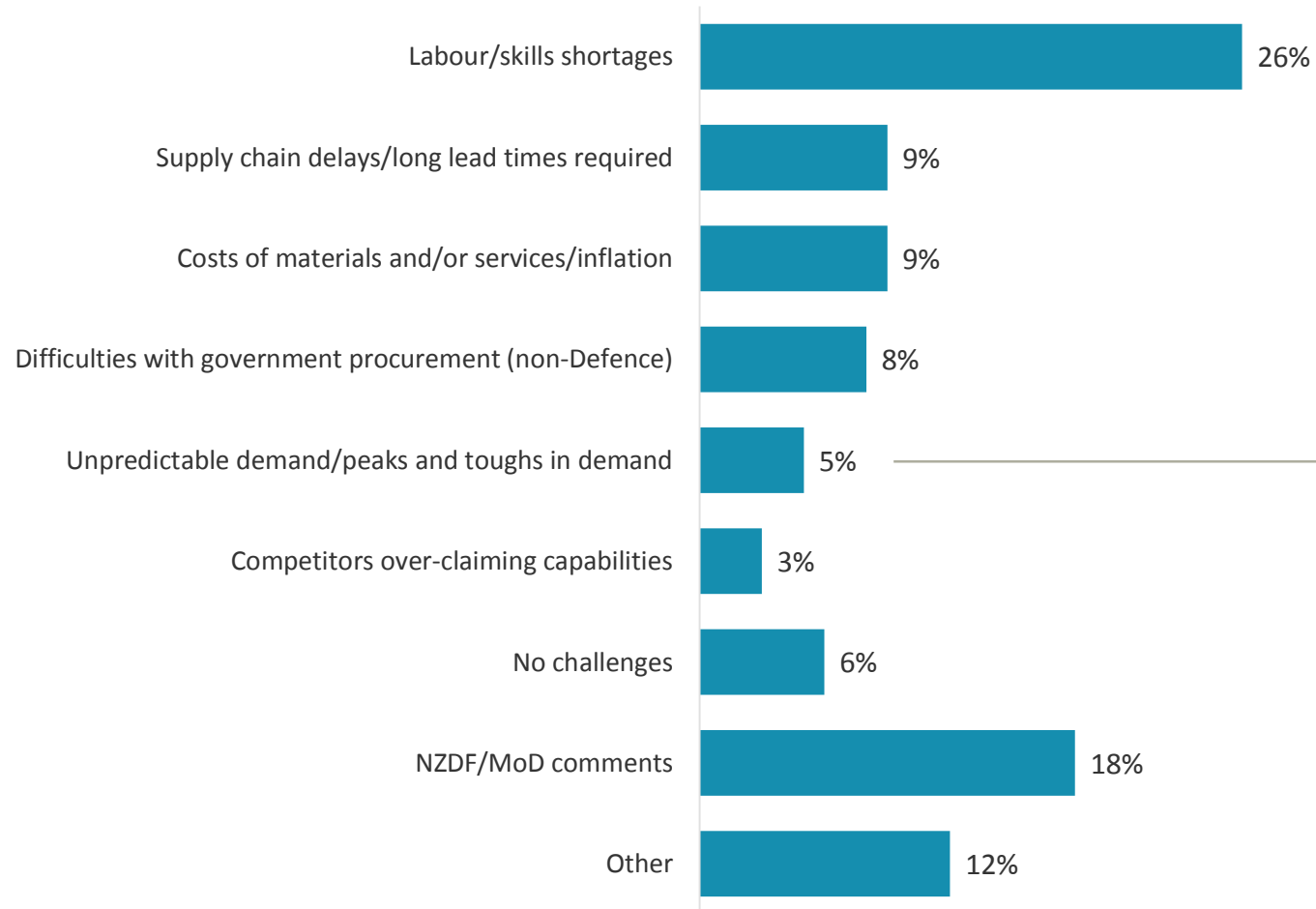
“Our customers are primarily government agencies and they all have long procurement processes. As a small business it is particularly hard to sustain the business development required across several customers to get these deals across the line. We offer a subscription service but many government customers don't understand how to contract with this type of service. Instead they offer complex contracts and push us towards enterprise selling rather than the subscription service we are set up for.”

“As a small business, additional Central Government regs, and changes to small business regs, with no added value to either the business or the client.”

Note. Only the challenges mentioned by two or more participants are shown as separate codes.

Source: Q5. Thinking more generally about the challenges your organisation is facing (i.e., general business challenges not just those specifically related to Defence), what are those challenges and how are they impacting your work for NZDF and the Ministry of Defence? Base: Survey participants who answered the question, n=66.

[CONT.] The defence industry are facing general business challenges and these are impacting on their ability to work with Defence. The greatest challenge faced is a shortage of skilled labour.



“As an advanced manufacturer we are an extremely capital intensive business. Unpredictable peaks and troughs in demand, such as those caused by COVID and more recently global supply chain shortages, make capital investments in new technology and R&D higher risk - because the return on investment is just so uncertain and all cash needs to be reserved for inevitable drops. We are still struggling with working capital.”

Note. Only the challenges mentioned by two or more participants are shown as separate codes.

Source: Q5. Thinking more generally about the challenges your organisation is facing (i.e., general business challenges not just those specifically related to Defence), what are those challenges and how are they impacting your work for NZDF and the Ministry of Defence? Base: Survey participants who answered the question, n=66.

Section 5

Opportunities – general



Industry want to innovate.



Industry are positive about the prospect of NZDF as a technology innovation partner and a means for selling New Zealand led technology to

However some industry leaders believe New Zealand should do more to attract technology businesses from overseas, but that regulations disincentivise overseas companies from being based in New Zealand.



“In a lot of other industries NZ is seen as ideal testing technical sandbox. If New Zealand could be a sandbox in terms military applications, that would be fruitful. So that means low regulatory barriers, making some of those change would be very attractive.”

“So they talk a good story that we are the smallest Defence in the Five Eyes and we can exploit things differently, that’s the promise. So we would like Defence to be the exemplar for IT among the Five Eyes, so if whatever the bit I do with NZDF is profitable doesn’t matter, once it rolls up to the UK for instance. The opportunity is awesome.”

“Another thing NZDF can do is to help reform Overseas Investment Office mandates. At the moment they regulate land transfers, because they want to make sure we’re not selling large swaps of land to foreign governments, but they also look at companies doing R&D. At the moment, there is such an onerous process and it takes so long that companies have a pretty strong incentive not to be based in NZ. We’ve had two deals we’ve done where the government a put 55 day hold on the investment for a national security review, for what is essentially a PowerPoint company. It’s a group of smart people with a pitch deck, and they’re going to raise some money, and the transaction’s been locked up, which can be fatal to an early stage company.”

Opportunities for creating pathways between Defence and industry for shared resource.



Industry see themselves as a means to recapture Defence personnel to utilise the skill and knowledge they have for Defence projects.

There is a sense that there are Defence personnel who could be supported to enter private enterprise and build capability for Defence and creating pathways for this to occur.



“We employ a lot of Defence people because they don't want be in Defence anymore and they want variety of workload, and they want to start a new career path. But they do like what Defence stands for and what it does. And so you know we are a very useful place to capture a whole lot of intellectual knowledge and reuse it and they make it make it available and I think that's appreciated. I think we would approach our projects with a mixture of people who understand the complicated language that Defence use.”

Defence could do more to ensure local New Zealand industry is used and protected.



Smaller local industry players describe how they are sometimes cut out of deals by the Prime, once the contract has gone through.

In these instances, they believe that overseas Primes use a locally based New Zealand supplier as part of the tendering contract, but then squeeze the local supplier on margin or side-line them.

Some industry leaders describe NZDF as 'hands-off' in supporting local industry to work with Primes.



“When bidding, everyone (overseas contractors) talk a great game about NZ industry involvement, but that doesn’t always follow through when they get the contract. The NZDF is the most hands off defence force I know in terms of forcing their contractors to work with local industry. The Australians are experts at keeping it within Australia. They are much more protectionist, and New Zealand is much more open.”

“Defence put heavy indemnity on contractors and fair enough, but what the big overseas suppliers tend to do is to distribute risk down and out towards us, and we end up carrying that risk. Defence could take more interest in what pressures are being put on New Zealand industry.”

“Defence are saying ‘the more local industry we use, the better.’ We won a 10 million dollar contract and got [x company] involved, one of the big boys from overseas. Once they get the contract, they squeeze us out, and we ended up with \$50,000 out of \$10 million. That’s just one example. The prime just use our skill set and contacts to better themselves, then once they get the contract they go. We’re left with all the responsibility and none of the margin.”

There's a view that Defence like to use their primes as their main suppliers and that quite often we've had this or Defence say, you should go and speak to the primes... they might not necessarily want to use a local company. They might want to reach back into the manufacturing or whatever. The motivations of primes to engage with the next tier down company, I'm not sure what it is, but each time we've tried it it's a generally not an easy thing to do to work with a prime for something as specialised as what we do.”

Build capability in the supply chain locally to build future resilience.



Some industry leaders would like to see Defence support smaller local suppliers, to both expand our local capability and be resistant to global events, such as COVID-19.

There is particularly an opportunity to help grow smaller Māori owned businesses who might not have the current capability to win big Defence contracts. This might be done through providing smaller regional contracts.



“So the Australians (compared to New Zealand) try to grow local industry ... They want to maximise the potential of what's in this corner of the world. They want to grow Australia and New Zealand industry capability so that we are as strong as possible. And we discovered the need for this during the pandemic. When you need someone to come and fix your simulator, and they've got to come from France and they can't get here, that's a problem.”

“From a Defence point of view, we should be thinking ‘how do we lean in to help support New Zealand businesses? How do we invest resource into the capability uplift for small New Zealand businesses over time’? You might have a two man plumbing business. The first year Defence might say, ‘let's do a 75K contract’. Then the second year it might grow to 120K. That then allows the business to bring in an apprentice the next year. Then that contract might grow to 250K, and that allows the business to bring another senior plumber. Then by the end of the fifth year you've taken that Mum and Dad business to a twelve person business, and that's awesome.”

Industry want to provide more value.



There is also a sense that Defence use 'secrecy' rather than confidentiality to inform their commercial relationships, which can hamper the industry and Defence working closely together.

Some feel that Defence doesn't understand their ability to provide 'value-adds' outside of tender processes which can be a challenge. When these conversations do occur Defence has been able to utilise the knowledge of industry.



“What I think is a psychological barrier in Defence, and I think it's because they deal in secrets and so I think that Defence gets bundled up in a procurement sense between confidentiality, privacy and secrecy, which are three different things and so confidentiality and commercial confidentiality, you know, they're always very important in the you don't.”

“The business doesn't necessarily understand what IT can offer to them, because they don't see it on their desktop as being a great experience, right, so it's hard for them to articulate, you know, here is my spend, get me a better experience, and knowing what that looks like. They see all these things over the web, and they go, 'how is that even relevant to me'. It's hard for the business to understand, what is this investment, what will I get out of it.”

“This is what happens when we show Defence around. They see it and they go wow, you know, you've got all this capability. That's fantastic.”

When survey participants were asked about opportunities they see for their business with Defence – most organisations talked about very specific products or services. Those who provided more general comments about opportunities mentioned three types of opportunities.

1. Greater collaboration with Defence

“A long term partnership with a NZ based company - can drive innovation, increase NZ development and understanding of technology, ability for a NZ company to provide NZDF with at home experience, customisation and support. Grow NZ industry as a whole instead of funding international economies.”

“To partner strategically for the introduction of an all-of-government large UAS capability for surveillance and reconnaissance across NZ, its regional areas of interest an global areas of interest. These uncrewed systems would aim to cost-effectively supplement other more expensive platforms such as the P-8 Poseidon. In doing so, the goal would be to enhance the NZ Aerospace Industry and provide sovereign support capability.”

“Building an innovation style hub where we co-locate our technology teams with NZDF/MOD and trial, test and develop to a continuously changing demand.”

2. Supporting New Zealand businesses (in New Zealand and overseas)

“As a second generation family business with a young team of very enthusiastic engineers who tell us the thing they love most about their jobs is getting to work on meaningful products - life changing prosthetics, rockets, jet engines, medical devices - working for NZ Defence to support our armed forces would be huge for our team's culture and purpose. We also hope that through becoming a supplier to NZ Defence programmes, that we will be able to participate in long term projects, with predictable through life sustainment opportunities. We are also actively targeting the Australian Defence market, being an existing supplier to NZ Defence would significantly improve our attractiveness to Australian Primes looking for advanced manufacturers to support their aerospace, electronics, weapons, small crewed and uncrewed vehicle and R&D projects. If we do become a successful Australian Defence supplier, the scale that would bring would enable us to invest significantly in our people, processes and overall capability - ultimately improving the capability locally for NZ Defence.”

“The uptake of our New Zealand made products.”

3. Supporting Defence through its current personnel shortage through out-sourcing roles traditionally done in-house and helping to build in-house capability

“Given the situation with personnel in Defence at the moment I feel it is time for some more radical thinking about what capabilities and functions need to be performed by Defence personnel - I believe some of the greatest opportunity is stepping in to support NZDF with critical functions or functions enabling them to focus people in the right areas and deliver outputs. How else are they going to succeed in the short to medium term?”

“Better understanding of the NZDF's training desires and how industry can support the more traditional roles the NZDF is struggling to fulfil.”

When asked how these opportunities could be realised, organisations tended to have one of four suggestions.

1. Work closer with industry

“Have open collaboration with a short listed group of specialist partners in the areas that you are looking to go to market for so that we can educate your teams on the current solutions available today and where we have successfully delivered them.”

“Potentially being involved in joint industry consultations which lead to joint industry authored strategic decisions.”

“Lets discover what each other can offer and requires?”

2. Being open to discussions and/or transparent with requirements/challenges

“Engage and share problems or challenges. The more you share with industry the better they will understand and the better solutions you will get back. I think more so in New Zealand than in other countries, MoD and NZDF industry partners are willing to work together and provide comprehensive solutions to meet the need.”

“Acknowledge that at times you might need outside help for issues that have previously been dealt with internally. We exist to provide support and we bring wide ranging expertise that can prove invaluable if given the opportunity to assist.”

“By asking and being willing to receive (and pay for) innovation and constructive support to think and act differently.”

3. More engagement

“Better and regular engagement with commercial Industry at all levels. Partnering with industry and less reliance on RFQs that become too restrictive and stifle innovation.”

“Engagement, engagement, engagement.”

“Be accessible and engage positively.”

4. Knowing who to contact

“Have lead Contacts in each of these areas who can direct engagement with the right internal people within Defence.”

“We had excellent engagement with ... but all that stopped pre COVID and now we are a bit lacking in future program contacts.”

“Defined lead points of contact for each area of the business that can ensure that Industry as a whole know what is sought and those individual PoCs understand the art of the possible and have access to those companies working in these areas. That would also mean that everyone would have an equal understanding of needs, requirements and capabilities that are sought.”

Section 6

Opportunities – technology



Technological solutions can address labour shortages.



Some industry leaders believe that technology solutions could be better utilised to address labour shortages within Defence.



“They see labour as a sunk cost, because they've got funding for people. So if they need an excavator for a bailey bridge that they need to put up, they need to pay for that. They'd rather deploy 100 people to get the bailey bridge up than go and get one excavator, because that costs 10 grand, but not see the fact that 100 wages far outstrips that cost.”

“What I tried to explain from my business, if you look at a contracting business like ours, people are a very scarce resource, and an expensive resource, trained and competent and experienced people are becoming less and less. There's less people coming into the market. So could Defence not invest in core technology, because a lot of the rhetoric you get from Defence is that they're very short of people they've lost a lot of skills and they're desperately trying to work out how they can get their portfolio of people back up again. They're not going to be able to attract the number of people they did.”

“Defence are desperately trying to work out how to get their portfolio of people up again, and that's ok to some extent, but you're not going to be able to attract the numbers that you historically did. Not for the money you pay and the place you hold in the market. But they are stymied a bit by their ability to embrace technology for meaningful change to their business.”

Tech not being utilised the way it could, other defence forces more embracing of innovation and technology.



There is a sense of New Zealand playing 'catch-up' with other defence forces in terms of utilising technology.

Some believe that policy and processes are getting in the way of utilising technology solutions to their full potential.

This is characterised as it being difficult to get Defence to think 'outside the box'.



"All this [IT technology] exists today, and that's the kind of thing we help defence forces with globally, so it's a little bit of New Zealand catching up."

"When we approached NZDF about [using their data for flight simulation] ... we've got data for every country and every flyable plane including helicopters. When we floated this with NZDF and said 'look what we're doing for Singapore Airforce, they've taken this thing we've developed and they've put in their own secret environment they've put their own training material over the top, so their people can train online."

"It's very difficult to get people to think outside the box in Defence, they get paralysed by process, which is ironic, because when you look at what you ask them to do in a disaster recovery or a warzone, it seems that their ability to adapt is a key part of it, yet when you deal with them on a day to day basis, their ability to adapt seems very difficult."

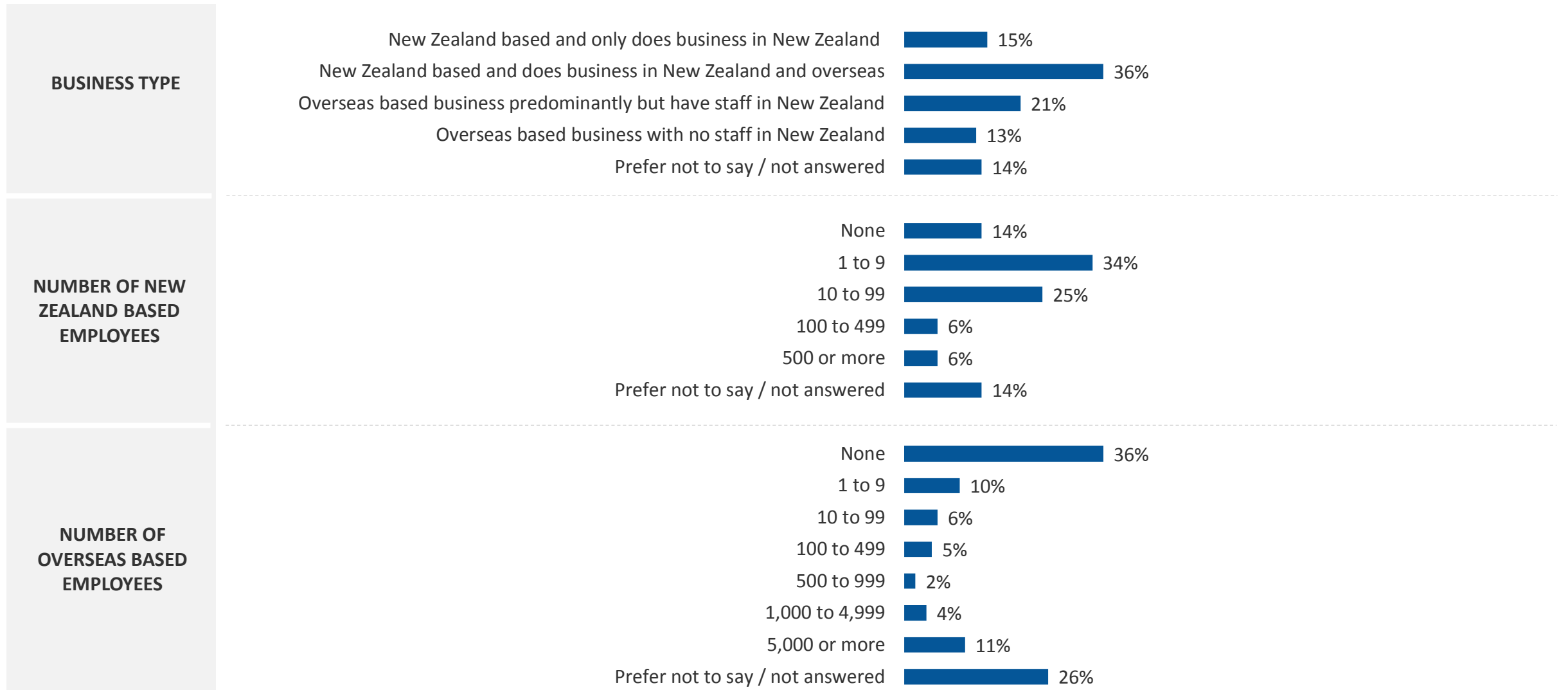
"ADF aren't scared to make decisions that might be controversial. or example they aren't to make decisions about what parts of the organisation's capability to retain or not. NZDF tip-toe around those decisions."

Appendix

Survey sample profile

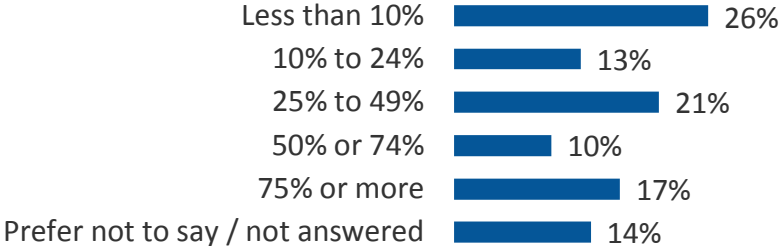


Online survey – Business type and size



Online survey – Business revenue and operations

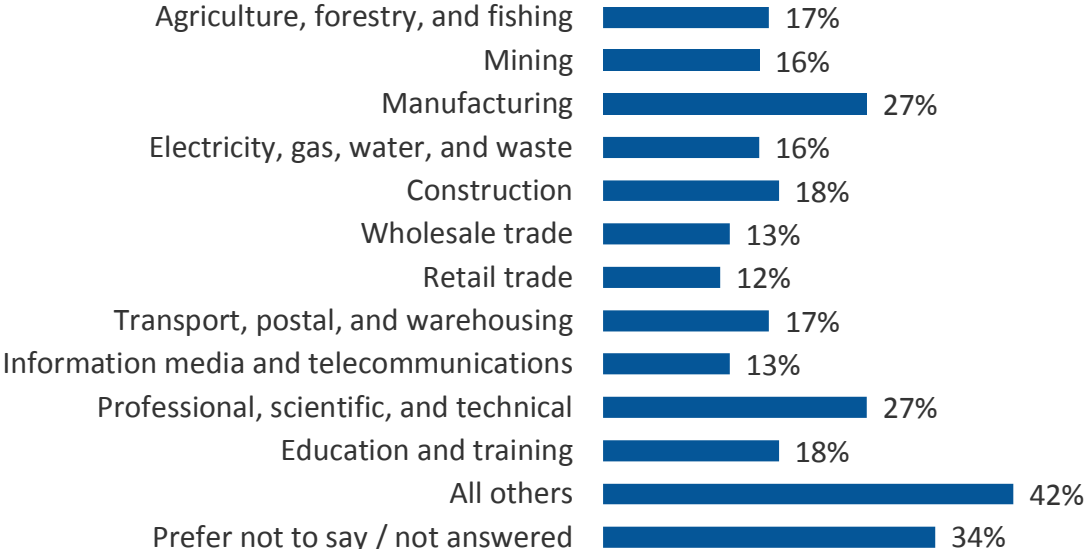
% OF REVENUE FROM DEFENCE



PROVIDE SERVICES TO OVERSEAS DEFENCE FORCES



NON-DEFENCE SECTORS OPERATE IN





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