

# **Review of the Global Supply Chain Program**

**FINAL REPORT**

**November 2021**

# Contents

Reviewer's Message .....	3
Summary of Recommendations.....	4
Executive Summary.....	5
Review Findings	
a.    Return on Investment (ROI).....	7
b.    Program design and management .....	9
a.    Earlier enterprise-wide planning .....	12
b.    Defence's relationship with industry.....	13
c.    Investment in defence industry .....	13
3. Recommendations .....	15
a.    Recommendations to help grow Australian industry .....	15
Focus Area 1: Improve planning for, and communication of, Defence capability needs .....	16
Focus Area 2: Provide a single point of access into Defence for industry and improve ease of doing business .....	17
Focus Area 3: Help grow Defence industry through new programs.....	18
b.    Recommendations for reform of the GSCP .....	20
Focus Area 4: Reset the core purpose of the GSCP to support Defence industry policy .....	20
Focus Area 5: Provide support which is better tailored to SMEs.....	21
Focus Area 6: Resource the GSCP to achieve its new program objectives.....	22
Appendix A – GSCP Review Terms of Reference.....	23
Appendix B – Analysis of GSCP Data .....	25
1. Value for Money Assessment .....	25
a.    GSCP Return on Investment Analysis.....	25
b.    Non-Financial Benefits from the GSCP to Defence and SMEs.....	26
c.    Market Analysis .....	27
2. Program Design, Funding and Contracting .....	27
a.    Use of Program Funds.....	27
b.    GSCP funding and contracting .....	28
3. GSCP Performance Management Framework .....	28
a.    Program Vision and Objectives .....	28
b.    Program Performance Indicators (PPIs) .....	28
Appendix C – Stakeholder Engagement.....	31
a.    Results .....	32
Feedback from Stakeholder Meetings .....	32
Prime Survey Feedback .....	33
SME Survey Feedback .....	34
Appendix D – Ideal Future State of the Defence-Industry Partnership and the role of the GSCP .....	36
Appendix E – Updated GSCP Vision and Objectives .....	37
Appendix F – Program Overlap Scoring for Figure 3 .....	38

## Reviewer's Message

**The Minister for Defence Industry, the Hon Melissa Price MP, launched an independent review of the Global Supply Chain Program (GSCP) in July 2021.** This review follows from the recommendations in the review of the Centre for Defence Industry Capability (CDIC) in July 2020 and recognised the need for more detailed consideration of the future of the GSCP. The CDIC was replaced by the Office of Defence Industry Support (ODIS) on 26 November 2021. The video below captures the intent of the GSCP Review and key messages from the Minister.

<https://www.youtube.com/watch?v=v2kEIU5NSc4&t=1s>

**I would like to thank the Minister for the opportunity to lead this review. I would also like to express my gratitude to those who generously gave their time to support the review.** We received 16 written submissions, met with 48 stakeholders, and received 74 survey responses through the course of the review. It has been a privilege to witness the commitment to the development of the Australian defence industry across Defence, the Prime contractors, and wider Australian business.

The Terms of Reference (see Attachment A) asked me to consider whether the GSCP should be continued. I have recommended that **the GSCP be continued**, as it plays a unique role in the development of Australian defence industry. However, **I have recommended improvements**. These include resetting its vision and purpose to align it more closely with Government's defence industry priorities, improving transparency and accountability to Australian small and medium enterprises (SMEs), and improving the operations and resourcing of the Program itself.

The Terms of Reference (TORs) for this review were wide-ranging. The Review's **recommendations are similarly broad**. Primes, SMEs and industry bodies asked for **enterprise-level long-range supply chain forecasting** to help them plan investments. They would welcome improved access through '**one door into Defence**'. They cited programs in other portfolios or overseas which offered **funding to early-stage SMEs** to become more competitive for Defence procurements. Relevant **recommendations should build well on the significant reforms led by the Minister**. I discuss these broad areas first because reform here should lay the groundwork for successful reform to the GSCP.

I consider there is currently a tension between the Australian Defence Force's (ADF) pressing capability requirements and the Government's defence industry objectives. I consider this an issue of timing. **If Australian SMEs that are potentially able to contribute to Australian's defence industry could be identified many years before a procurement, then supported to become more competitive, many more Australian SMEs would be able to enter Defence procurements at their start. This would support the creation of more jobs in Australia for generations to come.**

**I would like to thank** the team that supported the Review. The **s47G** team, ably led by Partner **s47F** with **s47F** and **s47F** was outstanding. Not only did they do all the essential analysis and preparation, but also offered intellectual insight which has broadened the horizon for this Review's impact. The **Defence** team: **s47E(d)**, **s47E(d)** and **s47E(d)**, offered enormous support, intellectual contributions and organisational skills, essential for the Review's success. I would also like to congratulate **s47F** and **s47F** who have managed the GSCP for many years ably and with expertise, enthusiasm, and commitment.

**Lisa Paul AO PSM**

*Independent Reviewer, Global Supply Chain Program*

# Summary of Recommendations

## **Focus Area 1: Improve planning for, and communication of, Defence capability needs**

- R1: Establish a Defence-wide supply chain planning unit in CASG to forecast Defence capability needs over a five-to-30-year horizon.
- R2: Ensure earlier communication of Defence requirements to Australian industry, at a granular level, so Primes and SMEs can plan for investment more easily.
- R3: Consider how Defence can better support Australian industry to achieve a level playing field internationally.
- R4: Collaborate on capability planning with allied nations and international Primes to address supply chain security challenges.

## **Focus Area 2: Provide a single point of access into Defence for industry and enhance ease of doing business**

- R5: Improve Defence's industry-facing services so Primes and SMEs find it easier to approach Defence.
- R6: Expand Defence's 'industry specialists' with deep knowledge of both industry and Defence's needs, to connect Primes and SMEs directly with defence capability needs.
- R7: Set up a unit in ODIS to scan Australian businesses and run a central database to identify Primes and SMEs able to offer defence industry capabilities.
- R8: Create a common assessment framework in collaboration with Primes so SMEs can provide data once, to be used for qualification multiple times.

## **Focus Area 3: Help grow Defence industry through new programs**

- R9: Promote innovation by re-funding rapid prototyping and setting up an accelerator to support Defence-relevant start-ups.
- R10: Reform the Capability Life Cycle to embed consideration of Australian SMEs early in procurement and acquisition to improve the positioning of local industry.
- R11: Establish an investment vehicle to accelerate the development of Australian Defence Industry capability.
- R12: Offer direct support to Australian SMEs to help them become more competitive.

## **Focus Area 4: Reset the core purpose of the GSCP to support Defence industry policy**

- R13: Broaden the remit of the GSCP and develop a new vision and objectives better aligned with defence strategic objectives.
- R14: Develop revised performance metrics for the GSCP that align to the vision, and better measure value delivered to Australian industry.
- R15: Publish participants' program performance.

## **Focus Area 5: Provide support which is better tailored to SMEs**

- R16: Resource the GSCP team to interact more with participating SMEs to better capture program value.
- R17: Resource the GSCP team to deliver and broker program activities to participating SMEs.

## **Focus Area 6: Resource the GSCP to achieve its new program objectives**

- R18: Expand the GSCP team to deliver on its new responsibilities.
- R19: Implement a single reliable funding stream for the GSCP.

# Executive Summary

## Background to the GSCP

The GSCP was set up to assist entry by Australian small to medium enterprises (SMEs) into the global supply chains of multinational Prime contractors (Primes). The GSCP is a Department of Defence (Defence) funded program that funds small teams in the participating Primes to SMEs to identify, compete for, and win direct export opportunities. This includes development of Australian SMEs to be more competitive in the global market.

In 2016 the delivery of the GSCP, among other industry programs, was redesigned and consolidated into the CDIC (now ODIS) located within the Department of Industry, Science, Energy and Resources (DISER). As result of the 2020 CDIC Review, the CDIC and GSCP were moved back into Defence. The GSCP falls under the Australian Industry Capability (AIC) Division within the Capability Acquisition and Sustainment Group (CASG). The program is currently administered by one EL2 and one contractor.

## Status of the Global Supply Chain Program

Since the GSCP was trialled with Boeing in 2007 and launched in 2009, the GSCP has provided an impact to local industry with the participating Primes collectively awarding **1,740 contracts worth over AUD \$1.49 billion to 218 SMEs and universities at a cost of \$123 million to government**. This averages at \$100 million a year over 15 years, and the **median contract value is \$70,000**. The Primes report that the Program has been instrumental in the awarding of these contracts.

The GSCP currently funds eight major global defence Primes – **BAE Systems, Boeing, Leidos, Lockheed Martin, Northrop Grumman, Raytheon, Rheinmetall and Thales**. Their teams are deeply committed to supporting Australian SMEs, including by identifying export opportunities, and mentoring, training and development. Wage costs of Primes' GSCP teams represent between 62% and 84% of program budget.

The GSCP is unique globally in how it seeks to support domestic businesses. Primes value the program highly and are clearly committed to helping Australian businesses succeed. They prefer the GSCP to other countries' offset or offset-equivalent programs.

**Given its unique position in Government's toolkit for supporting Australian industry, I recommend that the Program should be retained.**

## Methodology of the Review

To determine the success of the program, the review analysed GSCP data delivered by the Primes. All data analysis was conducted using only GSCP program data. In the Return on Investment (ROI) analysis, recent contract data (FY18-FY21) were used to best reflect the performance of the GSCP as it operates today. GSCP data analysis was augmented by data gained through engagement with stakeholders in Defence, Primes, Australian SMEs, and industry groups as shown below. In addition, considerable value was gained by engaging closely with the GSCP managers in Defence.



Figure 1: Summary of stakeholder engagement conducted through the review

## Performance of the Global Supply Chain Program

The baseline for each Prime is set from their performance during the first quarter of the program, with an expectation of continuous improvement. However, the GSCP has no explicit targets or external comparators that would enable benchmarking of the GSCP's performance as a whole. Moreover, no external baseline data (e.g. non-GSCP data on SMEs) could be identified, as a proxy.

Using GSCP data, significant return on investment for Commonwealth expenditure is concentrated in a few large contracts awarded to a few SMEs. Under the current Program arrangements set in 2018, **overall return on investment was \$9.63 for every \$1 dollar spent**. However, once larger contracts are removed from the analysis, **85.6% of GSCP contracts from FY18-FY21 generated an ROI of \$1.35**. In addition, there is no upward trend for either year on year increases in the total value of contracts awarded or in the average size of contract.

However, SMEs report favourably on **introductions, mentoring and training** as well as on contract wins, and these intangible benefits should not be overlooked.

Some SMEs considered that the value of contracts achieved was offset by the cost of bidding and a lack of transparency about the process.

## Recommended Reforms to the GSCP

Program participants would welcome clearer links to defence industry priorities and capability needs. They would like the Program to recognise non-financial returns on investment as well as the time it takes to win contracts. Performance indicators should focus more on SMEs, including on their satisfaction with the Program.

Participants all supported the need to expand the GSCP team.

## Themes beyond the GSCP

It was widely recognised that there is an **inherent tension between the capability the ADF needs at any given time, and the desire to grow Australian industry's contribution** to ADF needs. I consider this tension one largely of timing: if Australian industry understood the ADF's needs much earlier it would better match businesses' development and investment cycles.

Building on the considerable reforms to date, further complimentary reform could include the development of a **forward-looking supply chain planning function** in CASG to forecast ADF needs against a longer-term horizon.

Primes and SMEs would welcome **more granular advice**, earlier, of ADF forecast capability needs.

While the GSCP is to be applauded, it cannot compete with the strength of other countries' offset or **offset-equivalent** programs. The current AIC requirements might match this strength but that could be usefully tested.

SMEs would appreciate defence offering a clearly advertised **single entry point** into Defence and industry specialists who can match-make between an SME's capabilities and Defence capability needs.

This could be supported by industry experts based in ODIS able to **scan** across all Australian businesses **to identify** emerging technologies, emerging **SMEs** and adjacent technologies able to be applied to Defence capability needs.

Other countries and portfolios offer **funding to support SMEs'** development, for example by funding bids or offering Defence-only accelerators and grants to help SMEs become more competitive.

SMEs and Primes would appreciate a **common accreditation framework** so qualification information can be offered once and used multiple times.

The review makes recommendations against each of these areas.

# 1. Global Supply Chain Program – Review Findings

## Retain the GSCP, but implement reform to better achieve industry objectives and support Australian SMEs

The review identified the following findings in respect of the GSCP. Overall, it is recognised by stakeholders that the intent of the GSCP is admirable. However, views of the GSCP varied from highly supportive through to very critical. On balance the feedback suggests that the GSCP is worthy of being retained as it fulfils a unique role; but requires reform. This reform should seek to make the GSCP more effective in supporting achievement of government's defence industry policy objectives.

### a. Return on Investment (ROI)

#### Significant return on investment (ROI) to the Commonwealth is focused on a few relatively large contracts

All data analysis was conducted using only GSCP program data, as baseline data was not available to benchmark GSCP performance. The absence of a baseline means it cannot be said whether the GSCP ROI to date would be considered 'high' or 'low'. However, the analysis has demonstrated that the whole of program ROI is not representative of performance of all Australian SMEs under the program.

The GSCP database records a 12:1 ROI on all contracts claimed under the GSCP to date. Contract values peaked in 2010-2012.

For the purpose of this review, ROI analysis used contract data from FY18-FY21<sup>1</sup> which best represents the way the current program works. During this period, the GSCP expended ~\$58.15 million while \$559.77 million in contracts was awarded to SMEs, producing an initial **ROI of \$9.63 for every \$1 dollar spent** on the program by the Commonwealth. (see Figure 2).

Using the initial 9.63 value as a comparison point, subsequent analysis showed that the 9.63 ROI is **largely attributable to a small number of contracts**, rather than overall program performance. These contract values would not be considered typical of contracts recorded under the GSCP but make up a substantial portion of ROI. **Outside the top ~1% of contracts awarded between FY18-FY21, ROI fell from 9.63 to 5.85 per dollar of GSCP funding.**

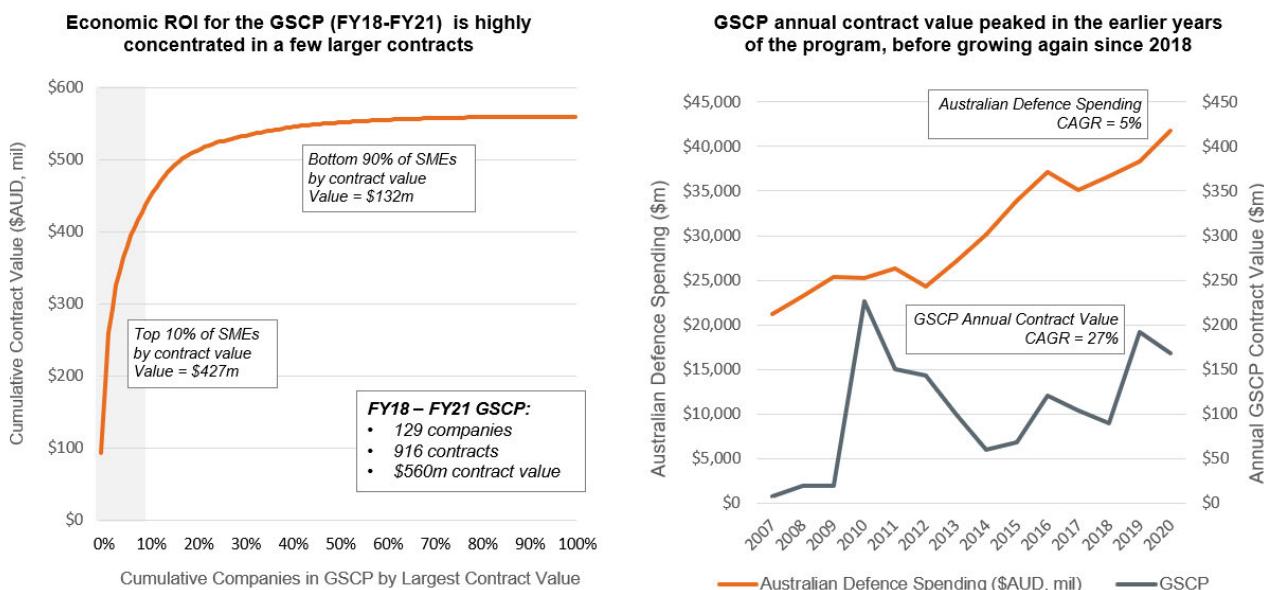


Figure 2: Graphs depicting trends in contract value for GSCP data

The ROI analysis also found that there was a notable difference between mean (\$0.61m) and median (\$0.07m) contract value. This suggested that the largest contract values would be considerably higher than the typical range of contract values, raising overall program ROI such that ROI would no longer be representative of value received through the majority of GSCP contracts. GSCP data indicate that contracts equal to or above the mean contract value of \$0.61m

<sup>1</sup> Recent contract data (FY18-FY21) was used so the ROI analysis reflected the performance of the GSCP as it operates today, noting that GSCP performance does not appear to be immediately affected by the COVID-19 pandemic. See notes in Annex D for further details.

comprise 14.4% of all contracts. Below the smaller number of high value contracts, the remaining **85.6% of GSCP contracts from FY18-FY21 generated an ROI of only \$1.35**, well below the original ROI of 9.63.

Analysis was also undertaken on the number of repeat contracts awarded to Australian SMEs. Many repeat contracts would suggest that the GSCP has been successful in integrating these companies into their global supply chains. GSCP data identify that over one-fifth (28%) of SMEs participating in the GSCP have won 6 or more contracts through the program. The top 11 SMEs (by volume) have won 50% of all contracts issued under the GSCP to date.

#### Top SMEs by Contract Value (\$AUD, mil) (FY18-FY21)

No.	Australian SME	Contract Value
1	s47G	s47G
2		
3		
4		
5		
6		
7		
8		
9		
10		
11		
12		

Table 1: Recipients of largest contracts awarded under the GSCP (FY18-FY21)

#### Low Return on Investment (ROI) cited by Australian SMEs

The Review recognises that ROI does not capture the full value of the GSCP to Australian industry. As such, it is recommended that while ROI continue to be measured, it should be considered alongside other measures of program value-for-money (vfm) such as residual benefits received by Australian industry (e.g. marketing and networking), and contribution to increasing SME capability. In addition, there can be economic benefits that flows to an SME's sub-tier suppliers. Therefore, this ROI analysis was augmented with observations on intangible program benefits and trends through stakeholder engagement (see below).

Feedback from SMEs suggested there can be a significant burden placed on them to pursue GSCP opportunities. There can be a high cost of certification due to duplication of qualification and accreditation processes across Primes. This is compounded by the large volumes of bid work required, with some SMEs reporting a low probability of success. These bids can consume significant resources for an SME to pursue, in terms of money and management effort. SMEs said that this has sometimes meant that even where SMEs have won work packages and tenders, the initial outlay has been so significant that the return on investment to them has been low. This compares to some programs in the United States where SMEs are funded to compete in procurements.

## b. Program design and management

### Primes rate the GSCP highly

The CEOs and teams employed by the primes under the GSCP indicated that the program has allowed them to identify and leverage Australian SMEs and capability of which they otherwise would have been unaware.

Primes noted the potential ongoing role the GSCP has in conjunction with other defence industry policies such as the AIC program in fostering a sustainable defence industrial base in Australia.

Representatives of the eight primes involved in the GSCP were favourable towards the program and were highly committed to its success. They recognised reputational advantage in being involved in the program. They were very committed to helping Australian SMEs enter their global supply chains and described many successes.

They were proud of the impact the program has made on their overseas counterparts and rated highly the benefits to the Australian SME participants.

They all said they preferred a program like the GSCP to a traditional offset program is applied in other countries.

### There are significant connections between the AIC and GSCP activities within Primes

Engagement with the Primes revealed that the team and individuals assigned to work across GSCP activities are often the same as those employed to manage AIC obligations. These teams represent a significant portion of the Prime's knowledge and engagement with local industry SMEs. There is similarity between the activities undertaken by Primes in AIC and GSCP, notably the identification of capability in Australian SMEs, matching SMEs to opportunities for integration into existing or new programs, and development support to bring companies into Primes' supply chains. Feedback suggests that the GSCP should be more interconnected with the AIC program to fully leverage existing local capability and to increase the number of opportunities able to be offered to SMEs.

### Activities carried out under the GSCP could be better aligned to defence policy objectives

Activity under the GSCP today is driven by the Primes, and therefore by their unique commercial needs as global businesses. This creates mutual advantage for Australian SMEs who wish to expand into export markets, and Primes are incentivised to identify innovative Australian products to incorporate into their global supply chains. The Primes must provide a 'business case' of proposed activities under the GSCP to Defence, which, if accepted, means the Prime is placed under contract with Defence. This approach supports the GSCP's current intent that Australian SMEs must achieve direct exports based on their own merit. However, it does not appear to incentivise alignment with Defence's Sovereign Industry Capability Priorities (SICPs). More could be done to support Australian SMEs which have been identified as a priority for Defence.

### Lack of transparency in the GSCP towards participating SMEs

Some SMEs engaged through the GSCP indicated that they have experienced a lack of feedback on the bids they pursued through the GSCP, hindering understanding of the processes associated with contracting and reasons for success or failure in tendering.

Combined with the high outlay they cited associated with tendering for export opportunities, feedback suggests lack of transparency is hindering the ability of Australian SMEs to participate and improve their competitiveness in Defence industry locally and abroad.

### Challenges in gaining traction with foreign Primes' overseas organisations

Some SMEs reported difficulties gaining traction with foreign based entities within the global Primes. This is despite exhibiting a successful performance history and offering services they considered to be competitive on cost and performance and despite best efforts by the Australian company of the Prime.

This difficulty is symptomatic of the challenge in introducing a new component into an existing platform design where foreign supply chains and suppliers are already embedded. The risk and cost of changing a supplier might outweigh the potential benefit even where Primes or original equipment manufacturers (OEMs) are incentivised.

It was observed that SMEs which own intellectual property, exhibit niche and innovative capabilities or are researching cutting-edge technology have a higher likelihood of displacing an incumbent or gaining traction with foreign entities. Greater success is likely to be had where an Australian company provides a niche technology and this is incorporated into the asset's supply chain from the system design phase.

Currently there are few Australian Primes, and there are few platforms exported from Australian companies which naturally pull in an Australian supply chain through their system design process.

Some SMEs considered they had greater success when they carried out the work to identify export opportunities themselves. The GSCP team in Primes are then best placed to establish a contact within their global organisation, validate the supplier's performance history, and support qualification and accreditation processes.

### **Program Performance Indicators (PPIs) should be augmented to be more fit-for-purpose**

Feedback suggests that the current suite of metrics do not wholly support alignment with Government's defence industry policy objectives.

Some Primes suggested that the current GSCP structure focuses more on contract compliance than outcomes for the broader Australian defence industry. This feedback suggested that the performance metrics need to be reformed to reflect the realities inherent within Defence contracting and procurement – in particular recognising the long lead time to fruition. Primes also suggested that PPIs were not adequately capturing all the value-adding activities they perform, and the residual benefits delivered to local industry resulting from these efforts.

From an SME perspective, the GSCP currently has no formal mechanism to allow SMEs to receive feedback on their opportunity pursuit. Also, there are no PPIs which focus on SME satisfaction or outcomes for SMEs. Without this, participants lack a formal mechanism to feed their experience back to Primes and the GCSP team.

Analysis of the current PPIs shows a limited link to government's broader defence industrial policy objectives and the types of capability required by the ADF e.g., SICPs. More could be done to align program outcomes to support and develop Australian SMEs with capabilities identified as a priority for Defence, enabling Australian SMEs to innovate and produce market-leading or next-generation technology.

### **GSCP team understaffed to realise the aspiration**

Stakeholders agreed that the current team in Defence managing the GSCP is committed and expert but understaffed and that the team should be enlarged to allow Defence to be a more active contributor to industry development opportunities in the GSCP.

### **The GSCP is unique and has limited overlap with other government schemes**

Analysis of programs in Defence and wider government indicated that other programs have some similarity with the GSCP's objectives i.e. increasing local industry exports. Ultimately the GSCP's unique approach has made it occupy an important niche for industry development, which would otherwise not be addressed.

Furthermore, only 16% of programs had an explicit focus or stated objective to support Australian business to become export ready or break into international supply chains. A breakdown of scoring methodology and programs is provided in Annex F.

All other assessed programs with 'high' overlap were designed to directly support SMEs through grants and reimbursement and no other program replicated the GSCP's unique approach. The GSCP is explicitly not a grant program and differs in how it provides support to industry indicating that it is therefore complementary and not duplicative of assessed programs.

All other assessed programs with 'high' overlap were designed to directly support SMEs through grants and reimbursement and no other program replicated the GSCP's unique approach. The GSCP is explicitly not a grant program and differs in how it provides support to industry indicating that it is therefore complementary and not duplicative of assessed programs.

See Figure 3 for the analysis of potential overlap between GSCP and other programs.

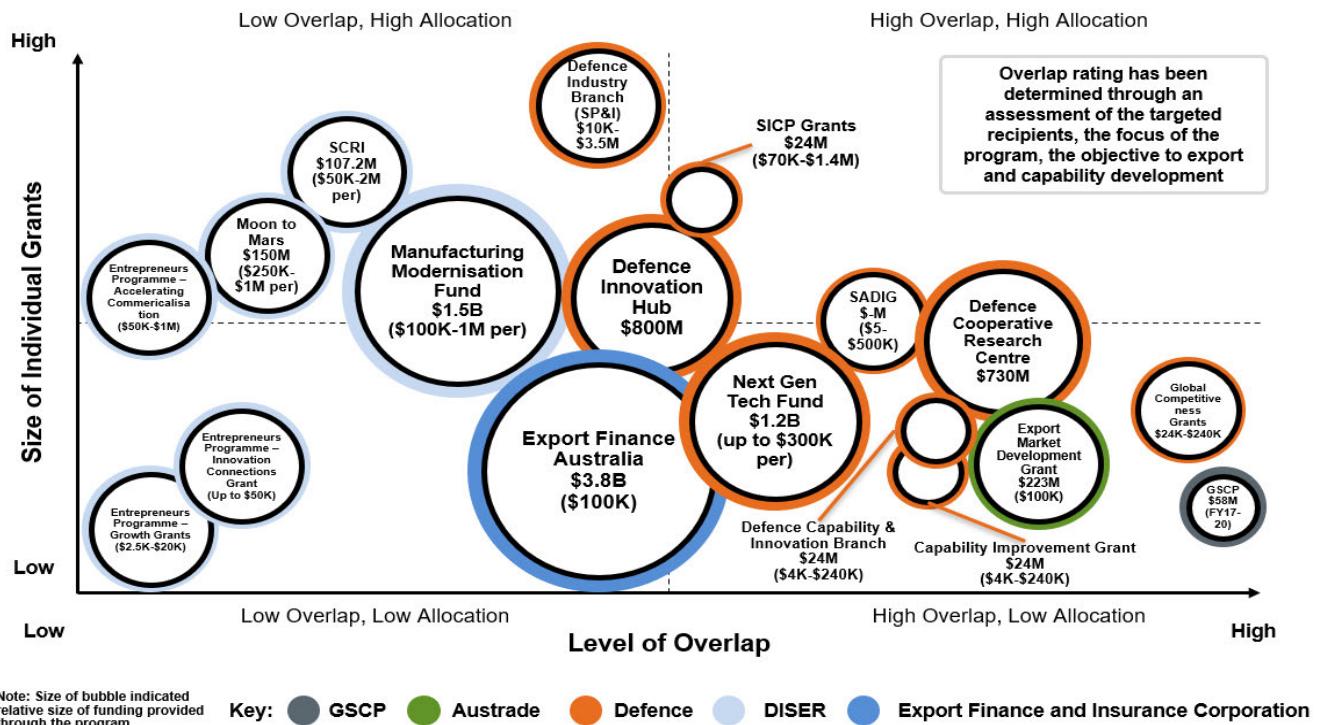


Figure 3: Analysis of overlap between GSCP and other programs

## 2. Broader challenges facing Australian defence industry

### Reforming Defence's role as a support to Australian defence industry

Through the course of the review, several issues emerged which signalled a broader set of challenges faced by Australian defence industry outside of the GSCP. These themes principally relate to the wider role that Defence can play in support of Australian industry, including planning, providing clear access, and supporting industrial development.

#### a. Earlier enterprise-wide planning

##### **Enterprise-wide planning across acquisition and sustainment programs, five years or more before a procurement would benefit Australian SMEs**

Feedback from Primes has indicated that developing domestic Australian capability to fulfil a procurement can take as long as five years or more. As a result, long term identification and planning of demand to a detailed level is essential to realise the best opportunities for Australian industry. This will support Australian SMEs to embed in Primes' supply chains, by better integrating into Defence's procurement and sustainment decisions.

Feedback suggests consideration of this timeline is currently at odds with standard procurement practices in Defence e.g. under the existing Capability Life Cycle (CLC) or through the Smart Buyer Framework. Australian industrial capability development is not currently planned early enough in the capability life cycle to effectively embed Australian companies into platform design and therefore build supply chains. While supporting probity to ensure that tender processes are transparent, fair, and competitive, this can be in tension with the objective of shaping the type of defence industry required by the ADF.

##### **More granular demand signals from Defence would be well received by industry**

Government provides strategic policy and Sovereign Industry Capability Priorities (SICPs) and requires primes to submit comprehensive AIC plans for procurements over \$20 million. However, feedback from industry stakeholders suggested that greater clarity is needed on Defence's future demand. The SICPs were generally considered to be too broad to help guide where industry should invest. Greater specificity, and surety of future demand is being sought from Government to prompt industry investment.

Stakeholders noted the approach of the United States Department of Defence through the Defence Production Act, which proactively drives demand toward key suppliers to ensure a continuous drumbeat of work. This maintains a domestic capability which can provide a warfighting advantage in the event of conflict requiring rapid mobilisation of industry. In effect, this considers industrial capability as much of a part of a defence capability as the platforms being procured from industry. SMEs noted a cultural difference in Australia compared to the United States and United Kingdom whereby the war fighter actively seeks to ensure domestic industrial capability – rather than solely focusing on the performance of the product being procured.

#### **Scanning Australian Industry**

Many individuals in the Australian Department of Defence have deep experience in Defence industry and expert knowledge of industry sectors. Several stakeholders, however, considered Defence needs a team which constantly scans all Australian industry, particularly SMEs, to identify start-ups and others which might offer products or services relevant to defence applications.

This would be a team which centrally collates and monitors information on Australian businesses, with frequent engagement across industry to maintain awareness of trends and new technologies. The Review has concluded that a proactive, engaged, and informed industry scanning function could improve the industry intelligence available to Defence, improve the quality of engagement with industry, and increase the potential opportunities to support Australian industry to succeed. Delivering such a function may be accelerated through the launch of ODIS which replaces the CDIC, and the development of the AIC and Integration Divisions within CASG.

## b. Defence's relationship with industry

### No clear 'single door' into Defence noted by Australian SMEs

The bulk of Australian SMEs described challenges in accessing and then navigating Defence. SMEs reported they found it challenging to identify where to present their innovative capabilities, and how to gain support for commercialisation of emerging technology.

Feedback highlighted a lack of understanding of the processes, pathways, and options for support, with poor transparency affecting the ability of SMEs to identify opportunities to supply. SMEs noted a desire for a clear entry point into Defence, tailored end-to-end support, and improved communication that makes the requirements and demands placed upon them clearer.

### The global defence market does not provide a level playing field

While the GSCP's approach and design is unique, stakeholders suggested that the lack of an offset program in Australia makes it difficult for domestic industry to compete internationally. Offset programs provide penalties for foreign Primes who do not achieve certain targets for use of domestic industry in the host country.

Despite being cost competitive and demonstrating capability, Australian SMEs noted that they will lose out to suppliers from countries where the global Primes have offset obligations to fulfil. This means that Australian business does not compete on a level playing field with companies from countries who have imposed offset obligations on the Primes.

### Government-to-government partnerships could be pursued further

Stakeholders noted the significant barriers Australian companies face competing in international defence supply chains. Australian SMEs face strong competition when exporting to the United States due to the Buy American Act. Engagement with Defence representatives overseas noted that Australian entities will only have realistic chances to compete where local industry distinguishes itself with a technology differentiator or innovative capability, and where it can be aligned to a Prime's direct commercial interest. It was also noted that in certain instances the GSCP's design and purpose was misunderstood by counterparts overseas. As a result, the GSCP sometimes failed to gain traction with stakeholders without the penalties associated with an offset program.

To achieve outcomes, feedback indicates that a stronger government-to-government dialogue is needed to support Australian SMEs to realise opportunities with foreign Primes. This could be pursued under existing frameworks (e.g., the National Technology and Industrial Base (NTIB) and the Allied Prototyping Initiative (API)) or new security arrangements e.g., AUKUS. The NTIB and the API if used to greater effect may open opportunities for Australian industry to circumnavigate some of the broader difficulties companies have faced in breaking into the US defence market and winning export orders.

### Success of the Joint Strike Fighter program in boosting Australian industry

Several SMEs, industry advocates and peak industry bodies' representatives considered the Joint Strike Fighter (JSF) program as having been exemplary in supporting Australian SMEs into global supply chains. Many SMEs considered the JSF program as being the catalyst that brought them into Australian defence industry. There is potential for government to apply the approach from JSF more widely and take a more active role in supporting Australian industry in future procurements.

## c. Investment in defence industry

### Siloed approach to industry development is insufficient to grow Australian industrial capability

Defence could consider taking a greater role in investing in Australian defence industry beyond the level of individual programs.

Under current procurement arrangements, decisions on the supply chain are largely driven by successful Primes through the tendering process to Defence. Although the Primes make efforts to develop AIC plans and to substitute foreign for Australian content, the inherent nature of the AIC program requirements means that supply chain decisions are effectively taken on a case-by-case basis for each program.

Feedback suggested that this siloed procurement across Defence programs is a structural challenge to the goal of maximising exports and local industry development and fails to achieve economies of scale.

Stakeholders indicated that Australian SMEs find it difficult to break into the existing foreign based supply chains of the international Primes. Even if they are contracted into programs, they considered it is often after the design phase or after the establishment of mature supply chains which can mean competing for lower value adding activities. Being easily displaceable, these activities are less effective at developing sustainable local industry capability.

#### **Defence could offer more support to develop Australian businesses for Defence applications**

Under the GSCP, SMEs are required to fund their own development and their involvement in bids for work. SMEs considered this significantly reduced the return on investment for their involvement in the GSCP.

Some Australian SMEs cited difficulties in accessing innovation funding and support from Defence. Barriers included the level of effort and costs required to apply, and challenges in obtaining the sponsorship within Defence required to receive support. In contrast, the Department of Agriculture has a scheme which supported one SME to fund the development of prototype equipment for testing, including alternative applications required by users. This SME was identified by a Prime in the GSCP and assisted to make contact and capitalise on the opportunity that matched their capability.

Initiatives in the United States such as the Tech Stars Program and the USAF's AppWorks Innovation unit demonstrate the relative emphasis placed on innovation and the potential returns able to be gained when industry is supported to rapidly develop capability for Defence applications. SMEs are funded to pitch to Defence in the US rather than have to pay themselves to participate in bids. In an age where technology evolution is accelerating at an unprecedented rate to maintain a warfighting advantage, it appears that more could be done by Defence to increase agility in procurement of leading-edge capabilities.

### 3. Recommendations

**It is recommended that the GSCP be retained.** To address the key findings, the following recommendations have been developed. This includes:

- a. **Recommendations to address structural issues** in Australian defence industry which are required to address the environment within which the GSCP operates; and
- b. **Recommendations which support reform of the Global Supply Chain Program** to be more effective in achieving defence industrial policy objectives and supporting Primes and Australian SMEs.

#### a. Recommendations to help grow Australian industry

Focus areas	Recommendations
<b>Focus Area 1: Improve planning for, and communication of, Defence capability needs</b>	<p><b>R1: Establish a Defence-wide supply chain planning unit in CASG to forecast Defence capability needs over a five-to-30-year horizon.</b></p> <p><b>R2: Provide earlier communication of Defence requirements to Australian industry, at a granular level, so Primes and SMEs can plan for investment more easily.</b></p> <p><b>R3: Consider how Defence can better support Australian industry to achieve a level playing field internationally.</b></p> <p><b>R4: Collaborate on capability planning with allied nations and international Primes to address supply chain security challenges.</b></p> <p><b>R5: Improve Defence's industry-facing services so Primes and SMEs find it easier to approach Defence.</b></p>
<b>Focus Area 2: Provide a single point of access into Defence for industry and enhance ease of doing business</b>	<p><b>R6: Expand Defence's 'industry specialists' with deep knowledge of both industry and Defence's needs, to connect Primes and SMEs directly with defence capability needs.</b></p> <p><b>R7: Set up a unit in ODIS to scan Australian businesses and run a central database to identify SMEs able to offer defence industry capabilities.</b></p> <p><b>R8: Create a common assessment framework in collaboration with Primes so SMEs can provide data once, to be used for qualification multiple times.</b></p> <p><b>R9: Promote innovation by re-funding rapid prototyping and setting up an accelerator to support Defence-relevant start-ups.</b></p>
<b>Focus Area 3: Help grow Defence industry through new programs</b>	<p><b>R10: Reform the Capability Life Cycle (CLC) to embed consideration of Australian SMEs early in procurement and acquisition to improve the positioning of local industry.</b></p> <p><b>R11: Establish an investment vehicle to accelerate the development of Australian defence industry capability.</b></p> <p><b>R12: Offer direct support to Australian SMEs to help them become more competitive.</b></p>

## Focus Area 1: Improve planning for, and communication of, Defence capability needs

### R1: Establish a Defence-wide supply chain planning unit in CASG to forecast Defence capability needs over a five-to-30-year horizon.

Proposed Solution: A supply chain planning unit is required within Defence which leverages the skills of supply chain economists to conduct analyses and supply chain planning on a granular level.

This supply chain planning unit (e.g. 'Defence Economic Planning Unit' – illustrative name used in Appendix D) is envisaged within CASG, so capability planning can be coordinated for procurements across different domains (maritime, land, air, space and information/cyber). Information on Defence's current and future supply chain needs would be collated into a centralised database (see R3). The consolidation in reporting will allow work packages to be identified across Systems Program Offices (SPOs) and programs. These can then be mapped and aggregated at an enterprise-wide level, using a common product breakdown structure. This mapping would be supplemented by analyses produced by the planning unit's supply chain economists.

Analysis and mapping conducted by the supply chain planning unit could be used to identify opportunities for:

- Coordinating demand across Defence;
- Introducing new strategic capabilities into Australia; and
- Using available information on Defence supply chain needs to plan and/or predict future capability needs and demand which can be used for industry signalling (see R2).

The supply chain planning unit would also have access to industry information compiled by ODIS and from the GSCP. This would enable the supply chain planning unit to identify medium-term and long-term capability needs and to what extent they can be delivered by existing Australian industry. It would also allow Defence to maintain a common and granular understanding of Australian defence and adjacent industries.

Close collaboration and ongoing communication would also be required between the planning unit, program teams, SPOs, and AIC Division to achieve this.

### R2: Provide earlier communication of Defence requirements to Australian industry, at a granular level, so Primes and SMEs can plan for investment more easily.

Proposed Solution: Ensure that once the Defence supply chain planning unit has identified future demand this information is shared with Australian industry at a more granular level than is now the case. This will allow industry to respond to the planned needs from Defence much earlier in companies' investment cycles. This function could potentially be carried out through ODIS, which replaced CDIC from 26 November 2021.

This recommendation involves ensuring there are individuals within Defence responsible for sharing with industry, information produced by the supply chain planning unit. One of the primary objectives of this role would be to ensure there is clear and timely signalling of Defence priorities to current suppliers and wider Australian industry. This would allow Australian companies time to position themselves to pursue future opportunities and provide the assurance needed for industry to commit to major investment decisions.

Positioned on the frontline of industry, these individuals' ongoing communication and ties with industry would mean that expand planning for they would be well-placed to handle and/or coordinate Defence-industry engagement activities such as:

- Collating and communicating information on industry and key suppliers received by all areas of Defence (including the future GSCP);
- Maintaining strong ties with industry, and leveraging these connections to realise opportunities;
- Establishing a Prime industry support forum (which could be done by expanding GSCP Prime Forum);
- Facilitating a Community of Practice within Defence to discuss and drive Australian industry considerations in Defence's own acquisition and sustainment; and
- Finding ways of increasing both Prime and SME networking and collaboration with Defence.

### **R3: Consider how Defence can better support Australian industry to achieve a level playing field internationally.**

Proposed Solution: A review should be undertaken to determine what Defence can do to establish a level playing field for Australian Defence industry competing for export work. This could involve comparing offset or other programs to ascertain what mechanisms are feasible within the Australian context. It would also involve reconsidering Australia's current approach to incentivising and penalising Primes through contracts.

The AIC enhanced contractual framework is considered the offset equivalent in Australia by Defence Primes, by establishing commitments to the development of Australian industry. However, the framework cannot compel Primes to meet Defence priorities as other countries can through offset or equivalent regimes. Further consideration should be given to how the AIC framework implemented by Defence interacts with the Primes' global offset program obligations.

The GSCP team's experience indicates that contracting directly with a Prime's parent company (as opposed to subsidiary) can generate better Global Supply Chain outcomes for Defence. This is especially the case in co-development and Foreign Military Sales which are currently not pursued as strongly as they could be (see R13). However, given the different business models of the Primes it is unlikely that a 'one size fits all' approach would be appropriate. The GSCP should contract with the entity Defence believes will deliver the best result for Australian SMEs.

### **R4: Collaborate on capability planning with allied nations to address supply chain security challenges.**

Proposed Solution: Defence should identify ways in which it can leverage opportunities available through government-to-government programs and partnerships to strengthen Australia's and its allies' supply chain resilience. Approaches may include:

- Reaffirm the commitment to existing partnerships like the NTIB and API and articulate the development pathways for local SMEs;
- Leverage developments in the new AUKUS partnership to understand the opportunities for local industry to meet emerging and future requirements; and
- Work with allied nations to understand common supply chain vulnerabilities and identify opportunities for Australian industry to support resilience building.

## **Focus Area 2: Provide a single point of access into Defence for industry and improve ease of doing business**

### **R5: Improve Defence's industry-facing services so Primes and SMEs find it easier to approach Defence.**

Proposed Solution: Defence's relationship management with SMEs should be expanded, made more tailored, and better coordinated. This would allow Defence to be able to pick up a given SME inquiry from a single access point into Defence and be able to follow it through end-to-end. There are several complementary approaches to this including:

- Creating an online gateway to streamline industry's interaction with Defence;
- Highlighting links to small business advocates and industry networks; and
- Establishing a network of frontline business staff to act as coordination points to communicate industry capability. This could be executed through ODIS.

### **R6: Expand Defence 'industry specialists' with deep knowledge of both industry and Defence's needs, to connect Primes and SMEs directly with defence capability needs.**

Proposed Solution: The business advice functions within ODIS should ensure they have enough information about both industry and Defence's capability needs, so they can work as one-on-one brokers between Defence and industry. This includes access to relevant information and data to provide a service to Australian industry which gives 'one door' for them into Defence. It

This involves taking a step further than providing advice on how to enter the defence market, and instead providing a transformative relationship with Australian SMEs. The industry specialists can then assist program teams and Primes to identify opportunities to bring Australian companies into their supply chains for the relevant sector in their area of expertise. The industry specialists could be configured around the Product Breakdown Structure of equipment, rather than geographical location of supplier to support specialised sector knowledge development.

### **R7: Set up a unit in ODIS to scan Australian businesses and run a central database to identify SMEs able to offer defence industry capabilities.**

Proposed Solution: Industry experts should be constantly scanning Australian industry, start-ups, accelerators, and other sources of knowledge about emerging technologies and businesses. They should be able to assess relevance to potential defence capabilities from information particularly drawn from the supply chain planning unit outlined at R1, as well as from other sources.

They should create and maintain a Defence-wide database which could be used as a source of ready-to-use industry intelligence. It should be able to support supply chain decision-making, and supply chain planning across Defence. The industry specialists recommended at R6 should receive information from this database to help match-make between Australian SMEs and defence capability needs. This includes enabling Defence to map future capability needs against existing industry to find where capability-building programs like the GSCP can assist SMEs.

In more detail, the central database is envisaged as being able to:

- Collate Defence-wide information and data related to supply chain planning. It should also function as a repository of AIC/GSC information including AIC plans and related documents, project investment priorities; and
- Collate all available intelligence on Primes and/or SMEs collected through various areas of Defence, including information on the current state of Australian Defence (and adjacent industries), current and prior work history across Defence, available capabilities, and company health checks.
- Contain a module to collect information from existing Defence data sources such as Austender, customer relationship management systems and/or the Industry Capability Network (ICN).
- Finally, as per Defence policies, the system should be hosted on the DPN to have relevant safeguards in place to ensure both data integrity and confidentiality.

**R8: Create a common assessment framework in collaboration with Primes so SMEs can provide data once, to be used for qualification multiple times.**

Proposed Solution: the aim of this recommendation is to reduce the qualification burden and align validation of performance history for SMEs entering Defence industry. Create a common framework between Defence and Primes to reduce qualification burden on SMEs for integration into Primes' supply chains. This should include common standards which can be 'ported' by SMEs, and/or sharing of performance history by SMEs with Defence and other Primes to increase confidence in contracting with Australian companies.

This recommendation could be supported through Defence development of a tool or system which can centralise information and provide this to the Primes upon request. This should include the ability for SMEs to self-assess, thereby providing a self-service means of identifying capability gaps they should seek to address before entering the defence industry. This will help SMEs gain a better understanding of whether they are ready for the Defence marketplace.

## Focus Area 3: Help grow Defence industry through new programs

**R9: Promote innovation by re-funding rapid prototyping and setting up an accelerator to support Defence-relevant start-ups.**

Proposed Solution: Innovation is recognised as a key enabler to success by Australian SMEs in the domestic and export market. Defence should strengthen its support to innovation and optimise commercialisation pathways available to Australian industry.

Defence has previously sought to achieve these goals through collaborative initiatives with industry such as the Rapid Prototyping, Development and Evaluation (RPDE) program. The RPDE program was designed to speed up development and acquisition of emerging and next generation technologies – this has since been moved into the Defence Innovation Hub.

Noting stakeholder feedback regarding issues accessing the Innovation Hub and challenges in identifying Defence 'champions', the revival or recreation of a similar program with improved access could be explored. Future innovation and commercialisation support should ensure that innovations not pursued by Defence can be provided to Primes for further investigation.

This could include an accelerator which supports funding of innovative capabilities by Australian industry to address ADF needs. This could be like InQtel which provides this support to US intelligence services.

Action to be determined through the Defence Innovation Review.

**R10: Reform the CLC to embed consideration of Australian SMEs early in procurement and acquisition to improve the positioning of local industry.**

Proposed Solution: Review the current Capability Life Cycle (CLC) and Smart Buyer framework to determine how it can be reformed to address i) opportunities/risks as identified through the proposed Defence supply chain planning unit, and ii) accelerate procurement for highly innovative capabilities required by the ADF.

Action to be determined through the Defence Innovation Review.

**R11: Establish an investment vehicle to accelerate the development of Australian defence industry capability.**

Proposed Solution: Review whether Defence can become a more active participant in the growth of Australian defence capabilities by establishing an innovative investment vehicle or vehicles to support emerging SMEs in their development phase.

Action to be determined through the Defence Innovation Review.

**R12: Offer direct support to Australian SMEs to help them become more competitive.**

Proposed Solution: Explore ways in which Defence can provide financial and other assistance to Australian SMEs in product or capability development (e.g., testing, prototyping, proof of concept, Non-Recurring Engineering).

While this funding could be achieved by establishing an industry support fund similar in function to that seen in Joint Strike Fighter (JSF), it could also be executed through the Global Competitiveness Grant which performs a similar function. In this case, consideration should be given to considering how to make the grant scheme easy to access and support SMEs in high priority areas for Defence.

## b. Recommendations for reform of the GSCP

Recommendation	Proposed Solution
<b>Focus Area 4: Reset the core purpose of the GSCP to support Defence industry policy</b>	<p><b>R13: Broaden the remit of the GSCP and develop a new vision and objectives better aligned with defence strategic objectives.</b></p> <p><b>R14: Develop revised performance metrics for the GSCP that align to the vision, and better measure value delivered to Australian industry.</b></p> <p><b>R15: Publish participant program performance.</b></p>
<b>Focus Area 5: Provide support which is better tailored to SMEs</b>	<p><b>R16: Resource the GSCP team to interact more with participating SMEs to better capture program value.</b></p> <p><b>R17: Resource the GSCP team to deliver and broker program activities to participating SMEs.</b></p>
<b>Focus Area 6: Resource the GSCP to achieve its new program objectives</b>	<p><b>R18: Expand the GSCP team to deliver on its new responsibilities.</b></p> <p><b>R19: Implement a single reliable funding stream for the GSCP.</b></p>

### Focus Area 4: Reset the core purpose of the GSCP to support Defence industry policy

**R13: Broaden the remit of the GSCP and develop a new vision and objectives better aligned with defence strategic objectives.**

Proposed Solution: A refreshed GSCP vision and objectives should be designed to better articulate how program activity under the GSCP delivers government's defence industry policy objectives. This includes:

1. Formally broadening the remit of the GSCP to include co-development programs and Foreign Military Sales (FMS), and closer collaboration with AIC programs, then potentially rebranding the program accordingly;
2. Expanding the list of allowable contracts under the GSCP to align with the new remit and vision; and
3. Expanding the number of Primes who are invited to join the GSCP and systematise the criteria for joining.

A draft of the revised GSCP program vision and objectives have been provided in Annex E. This vision proposes expanding the GSCP's formal remit to support ad-hoc involvement in contract opportunities where GSCP involvement could lead to improved outcomes for Defence. This would mean allowing the program to coordinate, increase information-sharing and collaborate as needed with AIC, FMS, and other major work types.

In conjunction with its broadened remit, the list of allowable contracts under the GSCP should also be expanded. Currently, the GSCP recognises direct export work only. However, expanding allowable contracts would mean opportunities not recognised under AIC, e.g., FMS, co-development, import substitution, indirect exports in Australian-built platforms, could be covered under GSCP. During the review it was identified that some opportunities identified under the GSCP had national security applications. These should be included in the GSCP where they demonstrate alignment with Defence's stated industrial priorities e.g., in the SICPs.

When considering an increase in the number of Primes, Defence could compile a list of Primes currently working with Defence by leveraging information from major project offices and AIC plans. As such, invitation to the GSCP could be offered to Primes which have submitted AIC plans and involved in FMS procurements but have not yet been included in the program.

It is not proposed to extend the GSCP to OEMs, as these companies will still be involved in the program indirectly through collaboration with the Primes. Note that expanding the number of Primes will necessarily increase the administrative workload on the GSCP office, so sufficient resourcing and funding should be made available (see R18).

**R14: Develop revised performance metrics for the GSCP that align to the vision, and better measure value delivered to Australian industry.**

Proposed Solution: Performance metrics under the GSCP should be revised to:

1. Expand existing metrics to provide more visibility and accountability of the delivery of program activities (e.g., mentoring);
2. Introduce SME feedback and satisfaction survey mechanisms to collect feedback to Defence and Primes;
3. Strengthen existing metrics to assess how GSCP activity aligns with Defence industrial priorities, e.g., SICPs / DRAICs;
4. Strengthen incentives for Primes to support Defence's industrial policy objectives.

The Review recommends that existing PPIs be retained by the program, but that additional measures of the program activity and incentives be introduced. This should focus on value of the program to Australian SMEs, which is not formally measured by the GSCP now.

This decision would be informed by quantitative and qualitative forms of SME feedback. This feedback could include:

- SME satisfaction scores and qualitative feedback on the program;
- Average value of contracts and/or purchase orders awarded to SMEs;
- Cost of bidding for opportunities to SMEs; and/or
- Win rates for SMEs.

Program metrics should also be developed to measure Prime contribution to Defence industrial priorities. This would allow the GSCP to have better information on program activity alignment to Defence strategy and priorities. Once a stable method of measurement has been identified, it may also be possible to implement a performance tracking system which could provide the basis of evaluation for Prime contract tenders in relation to AIC.

**R15: Publish participant program performance.**

Proposed Solution: Increase transparency and accountability by online publishing of performance under the GSCP. Primes have largely indicated a willingness for a Defence to publish performance results from the GSCP online. The program should publish performance reports at least annually. This would include both celebrating successes and indicating where performance has been poor.

It should also be considered whether there is future potential for combining the annual publication of results with AIC to publicise overall Prime performance.

## **Focus Area 5: Provide support which is better tailored to SMEs**

**R16: Resource the GSCP team to interact more with participating SMEs to better capture program value.**

Proposed Solution: The GSCP team in Defence should establish multiple ways of communicating with Australian SMEs directly, e.g., field visits, satisfaction surveys and annual discussion forums.

The GSCP should also have fit-for-purpose systems to capture and record this feedback for traceability. This should provide a feedback loop into the 'industry specialists' within the newly launched ODIS.

**R17: Resource the GSCP team to deliver and broker program activities to participating SMEs**

Proposed Solution: The GSCP office should be involved in the facilitation and delivery of program activities including ensuring program activities are providing maximum benefit to SMEs, ensuring gaps in program offerings are addressed, and ensuring sufficient program activity contributes to Defence strategic objectives.

At present, contract opportunity generation is emphasised, and the Review sees potential in developing and adding structure to other offerings (e.g., training, mentoring, networking, collaborations). This can be done iteratively by collecting and actioning SME feedback (see R14 and R15). Additionally, delivering activities as a structured program will allow the GSCP office to better identify, target and incentivise activities for the development of businesses within

Defence's priority capability areas. Note that establishing these activities as structured program offerings will require additional resources, so sufficient resourcing and funding should be made available (see R18).

## Focus Area 6: Resource the GSCP to achieve its new program objectives

### **R18: Expand the GSCP team to deliver on its new responsibilities.**

Proposed Solution: It should be ensured that the GSCP team has sufficient resources to achieve its goals.

Examples of resourcing considerations include:

- Defining the appropriate number of roles with required capabilities needed to operate the GSCP, and ensuring these staffing needs are met; and
- Reviewing information management systems and needs, and whether these could be improved.

### **R19: Implement a single reliable funding stream for the GSCP.**

Proposed Solution: It should be ensured that the GSCP has a single reliable funding stream that is able to support planned activity. This will enable more effective contracting over the periods required to deliver the activities put forward by Primes.

Defence should ensure that all program activity and Prime involvement within the GSCP can be funded through funds specifically for GSCP use. These should be independent of any project funding. This includes supporting expansion of program activity with additional Primes.

## Appendix A – GSCP Review Terms of Reference

### **Purpose:**

The purpose of the Global Supply Chain Program (GSCP) Review (the Review) is to evaluate GSCP performance, and the degree of alignment and support to Defence's current and emerging needs set out in the Defence Strategic Update, Force Structure Plan, and Defence Transformation Strategy (2020).

### **Context:**

The Review will be led by an external reviewer and supported by the Department of Defence as part of the integration of the Centre for Defence Industry Capability (CDIC) into Defence (CASG). As a guide, the Review will be smaller in scale than the CDIC Review (2020). Defence will provide the Review implementation plan, progress, and report with recommendations to the Minister for Defence Industry.

### **Scope:**

The Review is to consider:

1. Whether the GSCP is meeting its current goals and supporting Defence's aim of a sustainable sovereign defence industrial base and enhanced supply chain security to meet current and future Defence requirements.
2. the functioning and management of the GSCP within the CDIC.
3. the GSCP's alignment with broader defence industry policies and programs with a focus on supporting Australian businesses to enter the Global Supply Chain of all prime contractors (not only GSCP primes).
4. any overlap with other whole-of-government industry export development and promotion programs at a State and Federal level.
5. conducting gap analysis of GSCP's current roles, including whether the current management structures and funding processes support Government's Defence Industry Policy and Defence major project requirements.
6. developing alternate GSCP operational models, including expansion, winding up, relaunching, or reforming the GSCP.
7. whether the GSCP can assist Australian businesses address challenges and obstacles to closer integration under the National Technology and Industrial Base (NTIB) and Allied Prototyping Initiative (API).
8. any other matters relevant to the entry of Australian companies into international supply chains.

The Review should also specifically report on the following:

- a. Whether the GSCP creates the right incentives for Primes, aligned with Defence's requirements:
  - i. opportunities to improve with existing structures, including alternative structures and incentives.
  - ii. whether personnel with the right skills are being recruited, managed, trained and retained to meet GSCP's goals.
  - iii. how their GSCP responses are aligned to current Defence requirements.
- b. A general review of GSCP Prime Participation and their supply chain opportunities, including:
  - i. how the eight GSCP companies use their funding, whether it is fit-for-purpose.
  - ii. assessing the effect of GSCP Prime funding against Defence requirements.
  - iii. promoting and relegating companies in the GSCP program.
- c. How the GSCP is funded, including:
  - i. an analysis of the GSCP's current funding model.
  - ii. providing alternative funding models for the GSCP's funding, such as non-financial incentives and penalties.

- iii. whether the GSCP is delivering value for money for Australia.
- d. The GSCP's funding operation and processes including:
  - i. an assessment of GSCP funding performance based on past performance and data, including number of contracts written and SME successes entering the supply chain.
  - ii. whether the focus on SME export assists in accessing Prime supply chains.
  - iii. cost-benefit assessment of GSCP funding to SMEs against Defence's requirements.
  - iv. alternative proposals on how GSCP can fund businesses, including direct SME funding and opening up GSCP bids from Primes to large near-Primes.
- e. The role of other State and Commonwealth departments and agencies in supporting Australian Defence industry seeking to export, in parallel to the GSCP, including:
  - i. DFAT/Austrade, Export Finance Australia, and the Department of Industry, Science, Energy and Resources.
  - ii. supply chain engagement and opportunities to be found across whole-of Government.

## Appendix B – Analysis of GSCP Data

### 1. Value for Money Assessment

Since the GSCP was first trialled in 2000, GSCP Primes have awarded 1740 contracts to 218 SMEs and universities with a combined contract value of \$1.5 billion. This Review has considered whether the GSCP has delivered value for money in two ways. The Review has calculated a direct financial return on expended program funds through a Return on Investment (ROI) analysis. However, programs with complex and more intangible program goals often carry other benefits which cannot be assigned monetary value. As such, Section b below comments on the non-financial benefits received by Defence and SMEs participating in the GSCP.

#### a. GSCP Return on Investment Analysis



**There was no baseline data set to compare the performance of the GSCP against. Based on GSCP performance data only, the Program delivers a low economic return on investment (ROI) to government outside of a few large contracts. However, it is reported that there is significant intangible ROI.**

Since the GSCP's main objective is to create direct export work for SMEs, contract value awarded has been used as a measure of GSCP benefit. The ROI analysis was performed on contract data from between FY18-FY21<sup>2</sup><sup>3</sup> for two main reasons. First, the GSCP has evolved significantly since inception. This meant using recent contract data would ensure the GSCP's performance in its current state would be better reflected in the ROI analysis. Since contracts are awarded based on Prime supply chain needs, the ROI would also be more robust as it would account for more recent trends in Primes' contract generation.

With ~\$58.15 million expended by the GSCP to deliver \$559.77 million in contracts, the ROI analysis initially suggested a 9.63 ROI. That is, the GSCP generates ~\$9.63 in direct export work for every dollar spent through the program.

However, it was found that a large proportion of this contract value came from a small number of high-value contracts. This is true for both the complete (since 2007) and recent data. Between FY18-FY21, the ten largest contracts accounted for 39% of all contract value generated for the period. These high-value contracts were spread across only four SMEs, less than 2% of all SMEs recognised through the GSCP. Outside of these ten contracts, ROI fell to \$5.85 per dollar of GSCP funding.

Furthermore, the difference between mean (\$0.61m) and median (\$0.07m) contract value suggests that the GSCP tends to generate low-dollar value contracts for many participating SMEs. It should be noted though that low contract values aren't necessarily undesirable. In the context of the GSCP, Primes may choose to test new SMEs and/or conduct R&D work; both activities can be de-risked by splitting up a large piece of work into smaller contracts.

**Concentration of Contract Values, and Portion of Contract Value Used in ROI Calculations (FY18 – FY21)**

	% of Overall Contract Value (FY18 – FY21)	Value of Selected Contracts (\$AUD, mil)	Contract Value Generated Per \$1 Funding
All Contracts	100%	\$559.77	\$9.63
Top 10 Contracts	39%	\$219.81	\$5.85
Top 20 Contracts	53%	\$296.23	\$4.53
Top 132 Contracts*	86%	\$481.38	\$1.35

*Table 2: Contract Value Generated Per Dollar of Funding*

That said, these contracts are still very small when considering the size of contracts awarded through Defence, and scale of Defence sustainment and acquisition both domestically and abroad. The ROI analysis identified that GSCP contracts

<sup>2</sup> At the time of analysis, data for FY21 was available up to April 2021. While FY21 data was used for increased sample size, it should be noted that omitting FY21 provided a marginally higher ROI at \$1.67 though the conclusions of the ROI analysis remain the same.

<sup>3</sup> The long-term nature of Defence contracts has meant GSCP contracts have not been immediately affected by COVID-19. In fact, FY20 and FY21 recorded some of the highest numbers of annual contracts issued and equally strong contract values.

have a mean<sup>4</sup> of \$0.608 million; however, contract sizes above the mean account for fewer than 15% of all contracts. This would suggest that the GSCP typically does not produce contracts valued at more than \$608,000. Excluding these unusually high contract values, ROI falls to under 2.00 per dollar of GSCP funding for the remaining 85% of contracts<sup>5</sup>.

While an ROI analysis cannot fully determine program effectiveness, it does suggest that the GSCP's current strategy for locating opportunities in Prime supply chains only generates a limited number of large contracts for SMEs in the program. As such, the GSCP does not produce a strong ROI across the board.

The Review recognises that ROI does not capture the full value of the GSCP to Australian industry. As such, it is recommended that while ROI measures be retained, it should be considered alongside other measures of program value-for-money such as benefits received by Australian industry, contribution to increasing SME capability and so forth. The ROI analysis in the Review has been augmented and made more robust by observing intangible program benefits and trends through general data analysis and stakeholder engagement.

#### b. Non-Financial Benefits from the GSCP to Defence and SMEs



Analysis of program data suggested that **only a few SMEs have succeeded in winning ongoing work** with Primes through the GSCP. Just over half (57%) of all SMEs have only won 1 or 2 contracts. Moreover, work generated by the GSCP often **aligns strongly with Prime business models** (as opposed to Defence priority capability areas). A particularly visible example of this was the Prime that had awarded the most contracts through the GSCP supporting Australian SMEs in winning a considerable amount of non-defence work.

Further data analysis suggests that program benefit (in the form of revenue from GSCP contracts) has only reached a small number of companies. Since the GSCP was launched in 2009, just over one-fifth (28%) of participating SMEs have won 6 or more contracts (considered "Good" or better according to program and Commonwealth expectations). Meanwhile, 57% of all participants have won only 1 or 2 contracts through the GSCP, noting that the number of contracts won does not increase over time. It was found that of all contracts issued by the GSCP to date, the top 11 companies (by volume) won 50% of all contracts issued.

Analysis on FY18-FY21 program data indicates that SMEs have won just over one-third (36%) of opportunities they've been introduced to through the GSCP. Figure 6<sup>6</sup> describes win rates achieved by Primes between FY18-FY21; the Primes have been ordered by total opportunities. With an average win rate of 36%, it shows that three Primes have delivered better-than-average win rates. Noting that one Prime has contributed just over half (59%) of all opportunities recognised – more than all remaining seven Primes combined – the win rate of 36% is significantly driven by that Prime's performance.

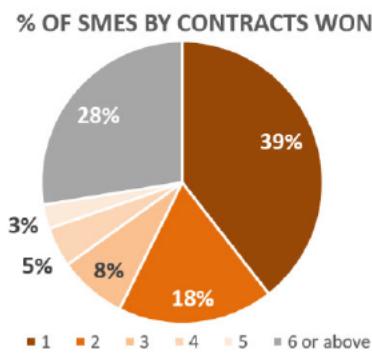


Figure 4: SMEs categorised by number of contracts won

	Total Opportunities (FY18 – FY21)	SME win rate	% of Bids by Prime
PRIME A	1019	48%	59%
PRIME B	285	6%	17%
PRIME C	97	25%	6%
PRIME D	97	16%	6%
PRIME E	93	19%	5%
PRIME F	77	48%	4%
PRIME G	39	38%	2%
PRIME H	18	28%	1%
Total Number of Opportunities	1/25	36%	100%

Table 3: SME win rates on GSCP opportunities by Prime

There was no benchmark available to compare win rates within the GSCP to the wider Defence market. However, discussions with stakeholders (see Appendix D) suggested that some SMEs might succeed in winning export work

<sup>4</sup> Mean value of \$0.608m for GSCP contracts awarded in FY18-21.

<sup>5</sup> Although there are minor variations based on how ROI excluding outlying contracts is calculated, the Review has identified that ROI can fall to as low as \$1.35.

<sup>6</sup> Prime names have been redacted from this table in accordance with confidentiality clauses within Prime-GSCP agreements

outside the GSCP, but still struggle to receive similar results through the GSCP. This indicates that the GSCP might only be capturing a portion of opportunities available to the wider Australian market. Program data suggests the current range of opportunities available is based largely on Prime commercial interests. This is to be expected as the Primes lead the development of proposals for activities and identification of opportunities. As such, the current program design results in opportunities and outcomes that may not align with Defence's industrial capability priorities.

### c. Market Analysis

Total contract value through the GSCP is relatively volatile especially when compared to stable forms of spending such as Australian military spend pictured to the right. There appears to be no sustained growth over time, as GSCP Primes collectively averaged just over \$100 million (\$119.42m) in contract value after the peak in 2011. Comparatively, Australian military spend has been increasing steadily over time. The combined \$1.5 billion generated by the GSCP accounts for 3.86% of overall Defence market spending in Australia for a single year (2021).

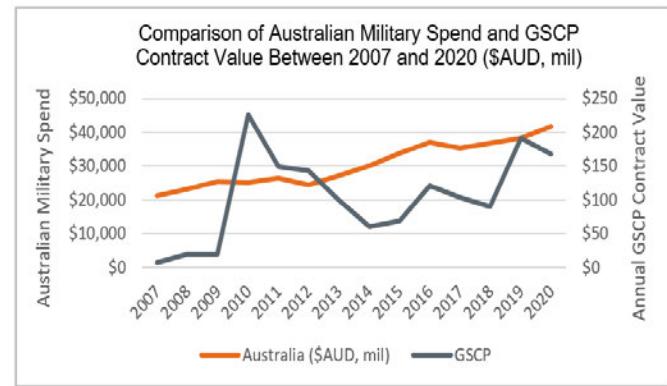


Figure 5: GSCP contracts value compared to Australia's annual Defence spending

If Australian SMEs are of sufficient capability and able to contribute more to Defence procurement and sustainment requirements, then they could benefit from this increased demand in the domestic Defence market. As such, while the GSCP may or may not be able to deliver a more stable pipeline of demand with higher return for SMEs, the GSCP could be used as a means of capability-building and networking, preparing SMEs for local opportunities with international Primes they engage with in the program.

## 2. Program Design, Funding and Contracting

### a. Use of Program Funds

All activities delivered under the GSCP are Prime led. This means while the GSCP office determines how much funding is received by the Primes, how the funds are used across the full suite of program activities is up to the Primes.

GSCP Primes are contracted to deliver six key activities. During contract negotiations, Primes must submit proposals which specify what team the Prime will be putting forward, capability areas of interest, their proposed pipeline, and how the Prime will advocate for Australian SMEs within their organisation. These proposals also include cost breakdowns, detailing how the Primes expect to use program funds.

The proposals assessed indicated that Primes expected to spend anywhere between 62% to 84% of GSCP funds on staffing costs. The Review is aware that the GSCP Prime units are instrumental in creating a closer, more productive working relationship between Defence and Primes. The Primes' GSCP units reach into the business to:

1. Find supply chain bid opportunities and/or
2. Connect Australian SMEs to key decision-makers within the organisation.



Figure 6: Current GSCP Offerings

However, both activities appear to have a low return for SMEs. Analysis suggests a 64% chance that the bid opportunity will not be converted into a contract for the SME. Some reasons cited for SMEs being unsuccessful included the opportunity being withdrawn, and lack of cost competitiveness. One possible reason is that the SME has chosen to decline the offer to bid. Engagement with stakeholders indicates SMEs are most likely to decline the offer to bid where it perceives a low return as pursuing opportunities can be a drain on limited firm resources.

Win rate for the overall Program stands at 36%, with win rates by Prime for SME bids shown in Table 3 above. There is significant variance in win rates between Primes. SMEs participating in the GSCP suggested that while most initial discussions were cordial, it was uncertain whether those conversations led to work being generated (see Appendix C).

In contrast, SME responses suggested that training and mentoring through the GSCP was highly valuable. It was viewed as a resource-efficient and less risky option for SMEs to build capability and increase competitiveness. These opportunities provided SMEs with Prime-specific knowledge and signalling, networking, and an open invitation to discuss future work. In one instance, one Prime replicated the US' highly successful Mentor-Protégé Program with an Australian SME. SMEs indicated that training and mentoring were highly valuable, however these activities only accounted for at most 3% of Primes' expected spend within the program.

#### **b. GSCP funding and contracting**

To achieve \$1.5 billion in GSCP contracts, the program has paid out \$122.76 million to Primes since 2007. The GSCP has been funded through multiple, disparate sources which affected funding certainty for the GSCP and therefore made contract management with Primes more complex. Funding from Defence project offices (hereafter referred to as "project funds") has made up a large portion of available GSCP funds over the last decade. Between FY17 and FY20, they accounted for 36.5% of available GSCP funding.

Project funds were initially sought to ensure Primes could generate opportunities for SMEs at the point of most influence in the procurement cycle. However, this action appears to have made program administration complex and labour-intensive.

Primes which were allocated project funds would be at risk of experiencing funding gaps. For instance, one Prime's project work ended in October 2019, after which there was 21-month gap before the next project. On several occasions, the GSCP office has had to consider dropping Primes from the program (irrespective of performance) as funding could not be secured. If the program's own allocated funds were not enough to cover their involvement, funds would need to be sought out by the GSCP office.

Additionally, the use of project funding has negatively affected contracting certainty which is a critical part of incentivising Primes to make investment decisions aligned with Defence strategic objectives. Without the assurance of contract renewal and/or longer contract periods, Primes in the GSCP are less incentivised to commit to longer-term capability building activities and long-term partnerships with SMEs which would contribute significantly to growth in Australian defence industry.

Over time, the use of project funding within GSCP has been declining. Based on funding schedules from the GSCP office, there will only be one Prime in FY22 whose involvement in the GSCP will be funded with project funds. As a result, the risks and uncertainty associated with project funding having been decreasing. If the GSCP is to succeed going forward, Defence should ensure that the program has sufficient funding to continue to support all participating Primes and activities (structured and ad-hoc), independent of any project funding received.

It should also be noted that the GSCP's current level of funding does not appear sufficient to expand and add structure to program offerings and/or to introduce more Primes. As recently as FY18, the GSCP had to locate and use unspent CDIC (now ODIS) grant funds to fund one Prime's involvement in the program. Thus, if Defence or the GSCP intends to increase the number of Primes participating in the GSCP, GSCP funding will need to be expanded.

### **3. GSCP Performance Management Framework**

#### **a. Program Vision and Objectives**

The GSCP's original vision was to "increase the number of Australian small and medium sized enterprises (SMEs), universities, and research organisations embedded in the supply chains of multinational Defence Prime contractors". However, the program has evolved over time in response to its changing environment. These changes included a focus on direct export opportunities and only permitting Primes to work with Australian businesses with <200 employees. The Review identified that the GSCP program vision had not been sufficiently updated to reflect these changes. This contributed to a divergence between the program's current activities and those formally recognised through Prime contracts.

The link between the GSCP vision, GSCP activity and Defence strategic objectives is currently ambiguous. As such, the program vision and its objectives should be refreshed in a manner that both captures the program as it currently exists, and also aligns with Defence strategic objectives.

#### **b. Program Performance Indicators (PPIs)**

While the program uses a range of tools to monitor Prime performance (such as six-monthly Program Management Reviews and Strategic Performance Measures), it is the Program Performance Indicators (PPIs) that are the central part

of the performance management framework. This is because the GSCP uses the PPIs to incentivise Prime behaviour. The PPIs are a suite of quantitative metrics calculated each quarter when Primes submit their quarterly activity reports to the Defence GSCP team. The metrics measure performance since each Prime joined the GSCP, and Primes' ratings on each PPI (poor, fair, good, or superior etc.) are expected to show an upward trend over time.

The PPIs are not designed to compare performance across Primes, as Primes' differing operational and business models cause variations in results that don't inherently link to relatively good or poor performance. For example, one Prime's primary business offering as a software researcher and systems integrator indicates that bids offered are less likely to be high volume and value opportunities to SMEs, as opposed to Primes involved in manufacturing.

	<b>PPI-1: Company Participation</b> This PPI is used to monitor the number of new SMEs identified, and how many SMEs are able to progress through Primes' business opportunity pipeline.
	<b>PPI-2A: Company Contract Awards</b> This PPI counts the total (cumulative) number of multiple and long-term contracts awarded by the Prime to Australian SMEs.
	<b>PPI-2B: Company Value</b> The purposes of this PPI "is to continuously monitor the individual number of contracts, by contract price (in Australian Dollars), awarded to Australian Companies by Companies under the GSC Program".

Figure 7: Current GSCP Program Performance Indicators (PPIs)

An overarching observation is that the GSCP relies solely on PPIs to measure performance. Stakeholder feedback has indicated that the GSCP PPIs should be refreshed. The PPI design means that they measure only part of the program's overall activity. This lowers visibility of potentially valuable activities, e.g., training and mentoring.

While information regarding training is captured in quarterly activity reports, there are no measures regarding how much or how well training is delivered. These would not necessarily have to be linked to Prime performance but would be a vital part of program administration and ensuring GSCP activity is maximising the positive impact it has on Australian industry. This could be achieved through SME satisfaction surveys and greater transparency on Prime performance made available to SMEs in a systematic manner. Furthermore, while the GSCP does communicate with SMEs on an ad-hoc basis, there should be a consistent and ongoing system of communication that allows the GSCP to be receptive and aware of SME issues, problems and experiences in the program.

There are also no robust measures for how well program activity aligns with Defence priorities. Primes can specify how the contract opportunity they've listed links to the SICPs or AIC. However, this could be made more robust by using a more specific map of Defence capability priorities (e.g., Defence Required Australian Industry Capabilities, DRAICs, which are introduced under the AIC Enhanced Contractual Framework), and/or introducing a PPI or other contractual measure that determines how much program activity is directly contributing to Defence's strategic objectives or priorities.

The GSCP's current information management systems are resource-intensive to manage. Program datasets are maintained in Excel workbooks received by Primes, and there is significant manual entry required in the maintenance, validation, and analysis of data. Moreover, considering the observations above, the GSCP currently would need to develop a method of managing qualitative feedback and information, e.g., survey results.

At the end of each quarter, Primes are rated as either satisfactory or unsatisfactory largely using a combination of their PPI and Strategic Performance Measures (SPMs). SPMs are qualitative measures that Primes used to self-assess performance every six months. The program uses three SPMs which cover Responsiveness, Relationships and 'Best for Project' as defined below:

1. **Responsiveness** This SPM considers how communicative the Prime has been with the Commonwealth and monitors whether they have consistently provided timely and coherent responses.
2. **Relationships** This SPM monitors the extent to which the Prime has maintained a positive working relationship with the Commonwealth and other parties when delivering GSCP activity.

3. **Best for Project:** This SPM monitors the Prime's willingness to ensure successful program delivery even if it requires actions not expressly stated in their contract. This includes demonstrating 'gold card' behaviours, and sharing resources (including staff, facilities, and equipment) where appropriate to ensure successful program delivery.

If the Prime's performance is rated unsatisfactory for two consecutive quarters, remedial measures will commence. Prolonged poor performance can lead to expulsion from the GSCP as happened with a Prime which was part of the GSCP from 2014 to 2015.

## Appendix C – Stakeholder Engagement

**Written Submissions:** Defence and the independent reviewer released public statements and communications inviting written submissions on the GSCP, including a video from the Minister and Independent Reviewer which was released on YouTube. A pre-agreed set of stakeholders were invited by letter to submit a response regarding the GSCP and how it contributed to their organisation. A series of open questions were provided to stakeholders both inside and outside the GSCP, to promote open responses.

**Stakeholder Interviews:** Discussions were held with key stakeholders to gain qualitative feedback and insights to complement the quantitative data gathering approach and prompt the exploration of issues and proposed solutions which could be incorporated in the options for assessment. Discussion was framed around a series of questions that tested areas with qualitative data gaps.

**Surveys:** An online survey was used to collect bulk data on program performance and wider issues facing program participants and wider Defence industry. The survey asked questions concerning the effectiveness of the GSCP (where applicable), and key issues and barriers faced by Australian defence industry.

Stakeholder	SMEs & Industry Participants	Primes	Government Bodies
<b>Summarised stakeholder point of view</b>	<p>While the purpose of the GSCP is admirable, the current design does not adequately support Australian SMEs. While the efforts of GSCP administration were acknowledged, it was generally understood that negative SME experiences in the GSCP weren't necessarily a reflection of the GSCP administration team.</p> <p>The program needs to provide tailored support mechanisms to better enable SMEs to pursue Defence industry opportunities</p> <p>The Program should be augmented by Government programs supporting industrial growth and SMEs</p>	<p>The uniqueness of the GSCP (compared to traditional offset programs) provides a valuable platform.</p> <p>However, significant reform to performance measurement tools is required to fairly capture all Prime endeavours and reality of Defence procurement (which make it difficult to satisfy existing metrics)</p>	<p>The GSCP requires greater coordination and integration with the broader Defence enterprise, and across government.</p>
<b>Key components of stakeholder feedback</b>	<ol style="list-style-type: none"> <li>1. Poor program configuration</li> <li>2. Poor Return on Investment (ROI) to SMEs</li> <li>3. Unclear demand signalling from government</li> <li>4. Insufficient support to break into global markets</li> <li>5. The GSCP does not recognise the reality of the global defence market</li> <li>6. Government needs to be bolder in growing Australian industry - including potentially 'picking winners'</li> </ol>	<ol style="list-style-type: none"> <li>1. The Program adds value – contracts are placed with Australian SMEs that otherwise would not have been</li> <li>2. Program Performance Indicators (PPIs) are not fit for purpose</li> <li>3. There is a lack of resources within the GSCP team in Defence</li> <li>4. GSCP activities should be combined with AIC, as there are significant overlaps</li> </ol>	<ol style="list-style-type: none"> <li>1. The siloed approach to industry development across multiple procurement projects is insufficient to grow Australian sovereign capability</li> <li>2. There is a lack of enterprise planning across procurement programs</li> <li>3. Greater alignment and a more co-ordinated cross government approach are needed</li> </ol>

## a. Results

### Feedback from Stakeholder Meetings

Primes within the Program have unanimously expressed a passionate commitment to developing Australia's sovereign industrial base and are very supportive of the GSC Program. The majority of Primes provided feedback to help make the Program more effective. This focused on:

- Increasing the duration of GSC Program contracts, to support better planning of resources;
- Reforming the governance of the Program, specifically how performance is measured and the frequency of reporting – changing PPIs to capture the full value generated by a Prime e.g., a metric to capture where an opportunity was offered to an Australian SME, but they didn't win or demonstrate competitive capability;
- Strengthening Defence's role in the Program to provide better support to industry, coordination with AIC initiatives, and driving the industrial priorities with a cross-project view;
- Broader changes outside of the GSCP to support development of sovereign industry e.g., reform to the CLC – it was acknowledged by industry that there is a 5-year lead time, at least, to develop industrial capability in the Australian supply chain where it does not currently exist; and
- Increasing the resourcing of the Program's administration.

SMEs engaged within the Program provided a more mixed response. On balance the Program is viewed as beneficial but could be significantly improved. The goals of the GSCP were widely regarded as positive, however the feedback on SMEs' experience of the program ranged from very negative to broadly positive. The support provided by Primes to SMEs in training/development was noted to be very high quality, along with the identification of contacts with whom to engage (both within the Prime and externally). Some SMEs indicated they have greater success when they have carried out work themselves to identify opportunities, which are then supported by the GSCP.

However, there are a number of issues with the Program which have emerged from direct consultation and with industry bodies which represent the views of large numbers of Australian SMEs. These focused on:

- Greater collaboration between Defence and industry in identifying priority markets, with Defence potentially co-investing to enable development of the supporting capability;
- The performance measurement framework of the GSCP driving the wrong behaviours from the Primes e.g., pursuit of unrealistic opportunities to meet the PPI on contract volumes or focusing on new SMEs which didn't have the capability to export;
- Large volume of bid work to support GSC opportunities, which consumes scarce resources for an SME (money and management effort) which the SMEs are required to fund these themselves. Conversely, the United States military provides funding to assist SMEs at each stage of the innovation process including initial scoping;
- In some cases, a low win rate for GSC Program opportunities which were identified by the Primes, compounding the issue of the large volume of bid work;
- No clear 'front door' for Defence to support SMEs in linking them to capability needs of the ADF;
- A lack of transparency from the Primes on the progress of potential opportunities, and feedback when those are won/lost; and
- A high cost of certification associated with pursuing Defence opportunities which presents a barrier to local SMEs competing globally – SMEs are often capable of demonstrating their capability but need support to be given the chance.

Defence stakeholders had limited engagement and exposure to the program. Of those familiar, most were broadly supportive of the GSC Program, noting that reform is required to achieve the policy objectives set out by government.

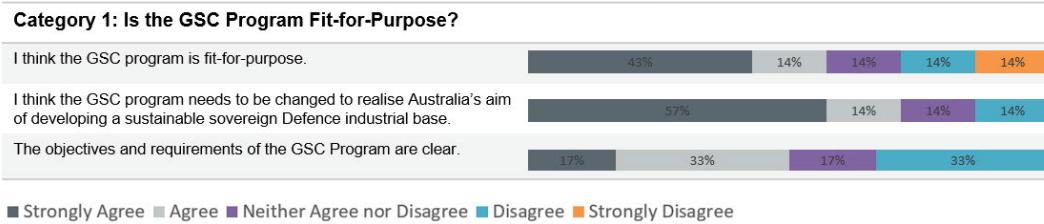
- There is a need for greater alignment between the program and wider AIC targets to ensure that SMEs are pursuing and developing the capability sought by Government;
- SMEs looking to export and excel within local and foreign Defence industries need to demonstrate niche and innovative capabilities. The program should do more to stimulate innovative behaviour and activities – this requirement should translate to the types of opportunities offered by Primes e.g., R&D programs
  - Align innovation with the other priorities and targets within industry (SICPs/DSTG StarShots);
- The program needs to improve its signalling and demand to industry to encourage development in the behaviours and capabilities required by Government and Defence. The program may need to set clear targets and increase its own communication with local GSC teams and SMEs. A lack of signalling compound the inability to achieve the above;

- Additional capacity is required within the program, and more broadly the AIC Division, and development of greater industry knowledge:
  - A refreshed culture will support the program administration to achieve better outcomes for Defence and the SME community e.g., a greater understanding of how Primes work and how Defence opportunities are realised for SMEs will support negotiations for deeds and GSCP contracts.
- The link with DISER must remain if Defence wants to realise the best opportunities for industry development – Defence may be the natural home of the program but DISER has invaluable links/data from which the GSCP and Defence should readily leverage.

## **Prime Survey Feedback**

### **Is the GSCP fit for purpose?**

When asked whether GSCP is fit-for-purpose, some Primes suggested that the current GSCP structure focuses heavily on administrative compliance as opposed to outcomes for the broader Australian defence industry. Primes also recognised that the program was well-intentioned. While some went on to say that the GSCP has achieved its intentions in the early years of the program, most agreed that the GSCP needs to be changed. One Prime also raised the fact that the performance framework used to drive Prime behaviour has "unintended consequences that constrain the Program".

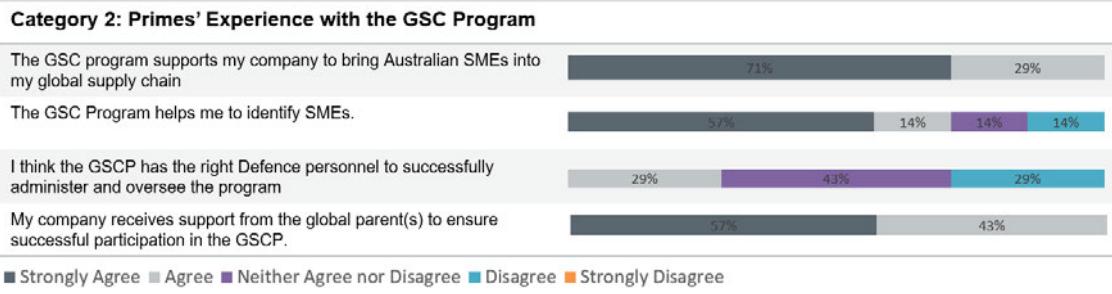


*Figure 8: Sample of survey questions asked about whether the GSCP was fit-for-purpose*

The majority of Primes agreed (14%) or strongly agreed (57%) that the GSCP must be changed to be able to maximise its contribution to Australia's defence industrial base. Feedback suggests that the GSCP should be more interconnected, e.g., being "embedded within a focussed Strategic National Industrial Program" or, at least, not so siloed that the program becomes "expensive, confusing and duplicative".

There was also mixed feedback regarding how clear the GSCP's aims were. One Prime suggested the objectives were clear while another proposed the need to refresh them. Meanwhile another indicated that requirements were clear but were inconsistent with the requirements of Government policy with respect to Australian sovereign industrial capability which made them hard to implement.

## **Experience with the GSCP**



*Figure 9: Sample of survey questions asked about the Primes experience with the GSCP*

**Primes surveyed indicated that participating in the GSCP had been a valuable opportunity** for them. One Prime found that GSCP involvement gave them more time to seek out differentiating technologies in Australia than they otherwise would. For another, Primes' involvement in vetting the SMEs meant that they could provide stronger assurances to procurement leaders within the organisation, and thereby increase the number of opportunities available to Australian SMEs within the organisation. When asked if GSCP participation helped them export capability/products and commercialise IP (results not pictured), the Primes cited some of the following as benefits of the GSCP and its current structure:

- The business-to-business (B2B) nature of the GSCP means it's possible to target funding more efficiently.
- The GSCP enabled them to build relationships with the SMEs they worked with.

- The GSCP was fulfilling an important task as "no business case exists to fund strategic and longer-term initiatives".

**When asked whether the GSCP helped the Primes identify SMEs, 57% strongly agreed** with one Prime remarking that the "program has provided opportunity to identify emerging research and innovative technology with universities and start-ups...[and] the opportunity to leverage adjacent markets to identify potential new defence sector suppliers." However, another Prime found that "the GSC program does not help identify SMEs. There is no attempt to look for any horizontal integration to drive more sustainable industry outcomes...a strategy driven approach and aligned Australian industry policy would provide for greater SME opportunity."

**The Primes were asked whether Defence had the right personnel to administer the program.** 43% neither agreed nor disagreed with that statement. One Prime held a favourable opinion of the team, noting that they "did a good job of engaging with the Primes and driving outcomes". Several Primes mentioned that the program is under-staffed while some suggested different expertise was needed to run the program. One Prime suggested that the GSCP office should become "become an active contributor to industry development opportunities" as opposed to opportunities being wholly determined by the Primes.

### **SME Survey Feedback**

**Overall, there seems to be a strong interest among SMEs in pursuing export opportunities** as the majority of SMEs surveyed either agreed or strongly agreed that an increase in export work would help their organisation's ability to compete in Defence industry. However, Australian SMEs' tendency to bid on export opportunities can differ significantly. Just over one-third (37%) of the SMEs surveyed indicated that they never bid on export contracts.

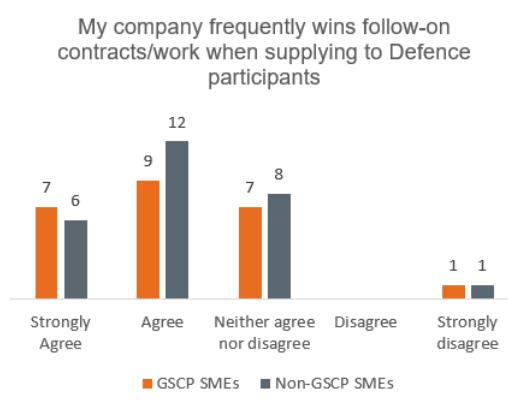
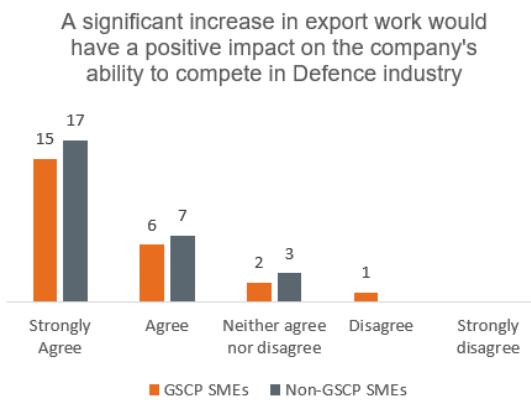


Figure 10: SME Survey Results – Impact of Export Work    Figure 11: SME Survey Results – Frequent Follow-On

When asked about their satisfaction with their current level of export work, survey responses indicated that respondents were a combination of SMEs whose products had not fully matured yet but were keen to pursue export opportunities in the future, and SMEs with capacity that struggled to find export work. For the latter, reasons cited for dissatisfaction were:

- Size of management kept low to remain cost competitive which means required documentation for some programs has led to 'no bids'.
- More recently, travel restrictions due to COVID-19 have negatively affected businesses that do not have a presence overseas in their target markets.
- Defence is a highly competitive sector and Primes often have well-established preferred suppliers, so it can be difficult for Australian firms to dislodge the incumbent.

When asked about follow-up contracts, a common theme was that Defence "places an emphasis on past performance so follow-on contracts are heavily influenced by previous work." Similarly, another SME remarked that for them "the combination of networking and proven past performance are critical to winning work in this environment."

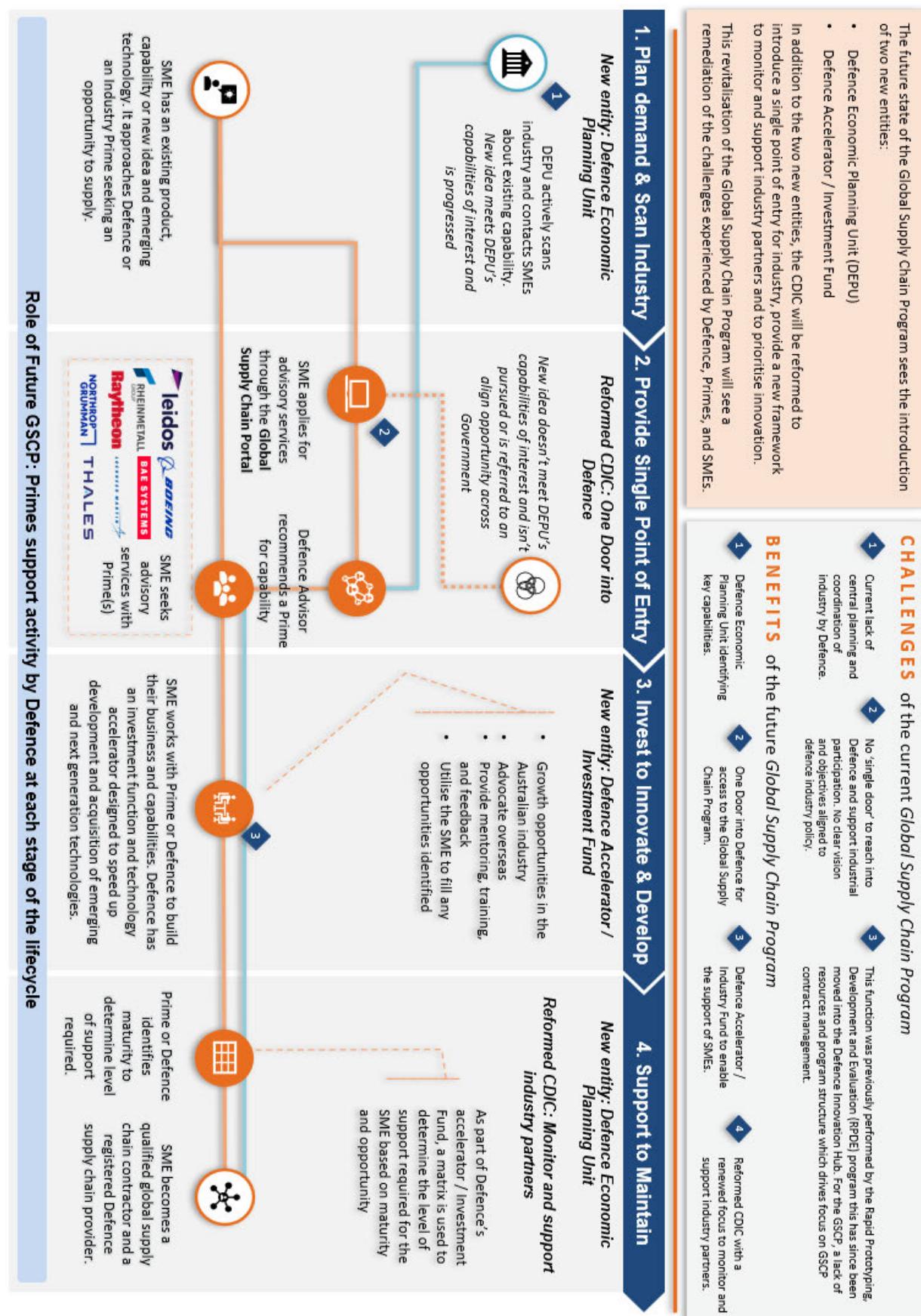
The GSCP may be best placed to support SMEs with some of the concerns cited. One SME noted that they had been "told numerous times by govt. ministers and ICN who have visited our site that [they] are in prime position to support defence, but [they] can't find the right project to start that journey". Additionally, SMEs noted the difficulty of displacing incumbents within an established Defence supply chain and the need to be included early in procurement decisions to integrate them within design decisions.

### **Experience Working with Primes**

Just under 80% of SMEs stated that they had largely positive interactions with the Defence Primes they'd engaged. Interestingly, 43% of SMEs outside the GSCP found that Primes were willing to help their organisation develop capacity. This number was very similar to the responses from SMEs in the program. However, recurring themes were that:

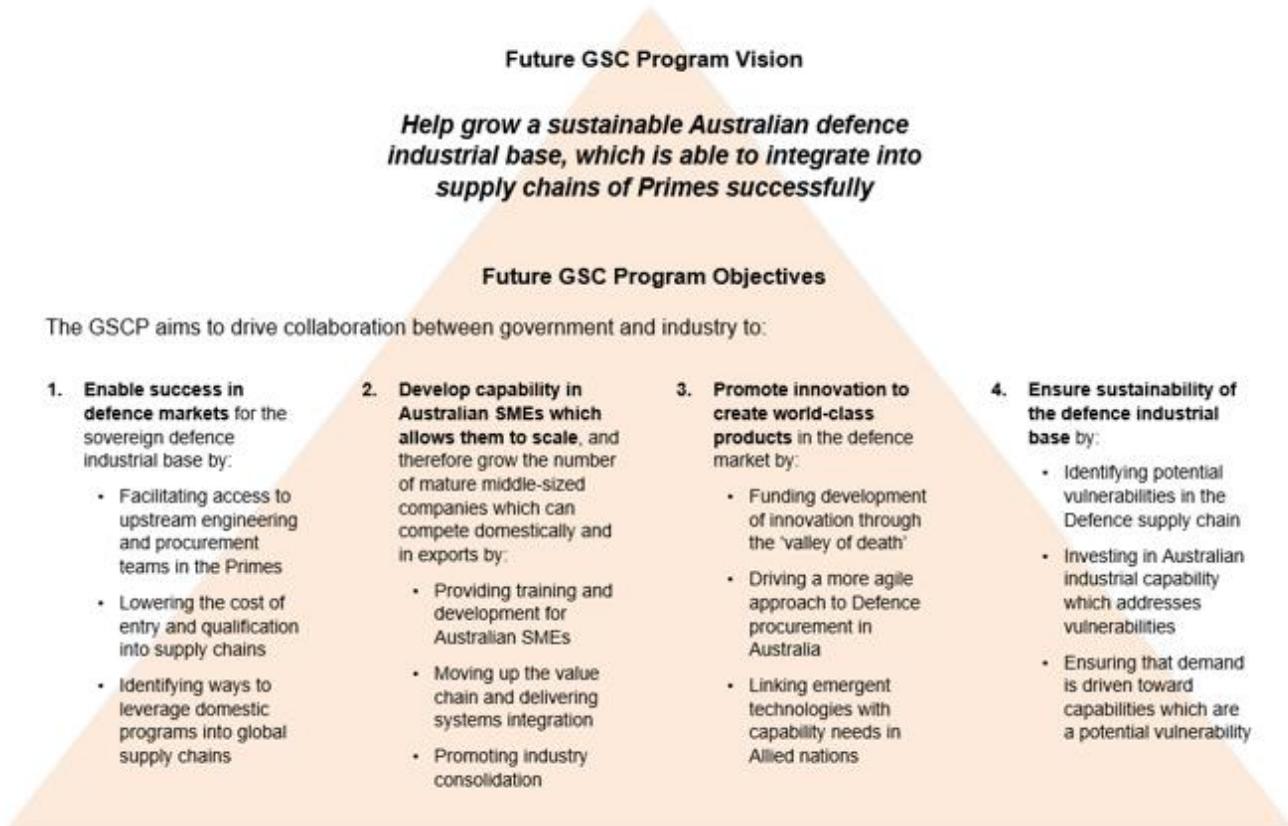
- **Initial engagements were usually cordial, but it was rare that something would come out of them** – "We have good contact with each of them, they are open to discussions. Converting contact to actual contracts is a bit different." For the GSCP, one SME remarked that the roadblock was that "program seems to get stuck with initial high-level discussions and its ability to influence Primes' overseas product divisions seems limited..."
- **Some Primes were perceived to be easier to work with than others. However, where SME and Prime interests diverge**, "there are still events where a US or EU Prime will block [the SME] in Australia if they consider [them] a threat". Similarly, the feedback suggests that Primes will – in the first instance – "consider undertaking the activity in-house, followed by recruiting staff to fill capability gaps...and as a last option subcontract to a SoW to an SME". Where working with Primes was too difficult, one noted it was easier to supply to them indirectly via other organisations.

## Appendix D – Ideal Future State of the Defence-Industry Partnership and the role of the GSCP



## Appendix E – Updated GSCP Vision and Objectives

The draft vision and objectives for the GSCP are proposed below. If adopted, it is likely that the program will need to be rebranded to recognise the increased level of ambition which will also benefit AIC.



## Appendix F – Program Overlap Scoring for Figure 3

Level of Support	Area	Entity	Program	SME Focus	Export Focus	Defence Focus	Capability Development	Total
Government	Federal	Defence Science and Technology Group	Next Gen Tech Fund	1	0	1	1	3
			Supply Chain Resilience Initiative	1	0	0	1	2
			Moon to Mars Supply Chain Capability Improvement Grants	0	1	0	1	2
			Manufacturing Modernisation Fund	1	0	0	1	2
			SICP Grants	1	0	1	1	3
		CDIC (now ODIS)	Capability Improvement Grant	1	0	1	1	3
			Defence Global Competitiveness Grant	1	1	1	1	4
		Defence Innovation Hub	Skilling Australia's Defence Industry Grant	1	0	1	0	2
			Proposals can be submitted at any time	0	0	1	1	2
		Defence Industry Branch (SP&I)	Strategic Policy Grants Program 2022	1	0	1	1	3
	State & Territory	Defence Capability & Innovation Branch	Capability Improvement Grant	1	0	1	0	2
		Defence Cooperative Research Centre	Defence Cooperative Research Centres Program	1	0	1	1	3
		Export Finance and Insurance Corporation	Export Finance Australia Guarantees	1	1	0	0	2
		Dept. of Industry	Entrepreneurs Programme - Accelerating Commercialisation	1	0	0	1	2
			Entrepreneurs Programme - Growth Grants	1	0	0	1	2
			Entrepreneurs Programme - Innovation Connections Grant	1	0	0	1	2
	Industry	AusTrade	Export Market Development Grants	1	1	0	0	2
		Defence NSW	Defence Innovation Network	0	0	1	1	2
		Invest VIC	Future Industries Fund	0	0	0	1	1
		Defence Council Vic	Future Industries Fund	1	0	0	1	2
		Business Victoria	Advancing Victorian Manufacturing	1	0	0	1	2
		Defence SA	Defence Innovation Partnership	1	0	1	1	3
		Defence West	Defence Science Centre Grants Programs	0	0	1	1	2
		Defence Jobs Qld	Queensland Jobs Fund	1	0	0	1	2
		Queensland Treasury	Business Development Fund	1	0	0	1	2
		Department of State Development, Manufacturing, Infrastructure and Planning	Defence and Aerospace Industry Development Fund	1	1	1	1	4
		North Queensland						
		Defence Advisory Board & South Queensland	Future Skills Fund	0	0	0	1	1
		Defence Advisory Board						
		Team NT	Supplier Readiness Program	1	0	1	1	3
		NT Government	Business Innovation Program	1	0	0	0	1
	Industry Associations	Defence Teaming Centre	Defence Industry Leadership Program	1	0	1	1	3
	State Industry Associations	Australian Industry Group	Entrepreneur's Programme	1	0	0	1	2
	Academia and Research	HunterNet (NSW)	Defence Ready Pilot	1	0	1	1	3
		Defence Science Institute	DSI Research Collaboration Grants	1	0	1	1	3
		Defence Innovation Network (NSW)	Defence Innovation Network Pilot Project	1	0	1	1	3