

# BATTLING FOR A FAIR SHARE

Britain's defence budget is undergoing massive expansion, and the government says it wants more of that spend going to SMEs. But what barriers do firms face, and how can they overcome them?

## How is the UK defence sector changing?

**Darin Tudor** Defence spending has been delayed slightly, but significant increases are expected soon. A new position has been created: the national armaments director, reporting directly to the secretary of state for defence, co-ordinating all MoD [Ministry of Defence] units, ensuring spending is focused on increasing capability. Meanwhile, the UK Defence Innovation [UKDI] will be a key point of contact for SMEs [small and medium-sized enterprises], a central portal for engagement. It'll take around a year to become fully operational. This new structure should make engagement simpler.

**Mair** The shift towards sourcing more work in the UK helps maintain sovereign capability: a stance that's kept much of the Typhoon programme work here. About 70 of our members are suppliers to it.

**Walker** Innovation integration remains a major challenge. Defence reform is ongoing, but there's still much uncertainty about how new processes will work. The traditional defence R&D [research and development] model, led by the chief scientific adviser's mandate and DSTL [Defence Science and Technology Laboratory], used to define priorities and feed a strong innovative supply chain. But that mechanism is clogged.

## Are there opportunities for SMEs?

**Maguire** The Midlands is now second only to London for defence-related investment. Although government processes move slowly, there's growing recognition – particularly among foreign investors – that this is a strong time to invest in the region's defence sector.



**Darin Tudor** There are positives for SMEs in defence – they're flexible, can pivot quickly. And once you're in, you tend to stay in, and margins are strong. There's also a moral aspect: people take pride in contributing to national defence.

**Savi** R&D expenditure in defence has risen significantly, to over £2bn per year. There's also inward investment from European defence startups, which could help create clusters of innovation from which SMEs could benefit. Another issue is improved interoperability between civil, space

**"This is a strong time to invest in the region's defence sector."**

**Pete Maguire**

## THE PANEL

### OLIVER JENKINS

business development manager, Clegg Food Projects

### DARIN TUDOR

chief executive, The Defence Innovation Cluster

### CHRIS WALKER

managing director - Cyber and Strategic Command Business, Qinetiq

### LES HINES

strategic account manager, West Midlands Growth Company

### ROY HORSFALL

senior project manager, Willmott Dixon

### ANDREA SAVI

account director, Flyber Aerospace Composites

### ANDREW MAIR

chief executive, Midlands Aerospace Alliance

### SIMON MACWHIRTER

vice president, head of defence UK & Ireland, Capgemini

### RICHARD GLYN-JONES

director, Tanglewood Group

### PETE MAGUIRE

partner, Irwin Mitchell

### NICK TUDOR

chief executive, D-RisQ

### PETER MERRIFIELD

sales manager, OSPL

### STEVE MALONE

general manager, WFL Millturn Technologies

and defence programmes. Until recently, there was no communication between them.

**Merrifield** We've had more success in other markets – the US, Australia. It's easier to engage with both primes and end users. They actively help you make those connections. In the UK, engagement with the MoD is tougher. Supplier engagement teams are overloaded, and it's difficult to break through. We've made some traction, but it's painfully slow. However, we're hoping for a renewed opportunity to re-engage



Roy Horsfall



Andrea Savi



Andrew Mair



Simon MacWhirter



Richard Glyn-Jones



Pete Maguire

with UK industry if the process becomes more practical.

### What obstacles do SMEs face?

**Hines** Many SMEs want to support defence. They're patriotic and confident their technology could be applied, but they don't know where to start, who to contact or what the process is; they lack the resources to chase tenders or write complex bids. They need a pathway.

**Glyn-Jones** The number of frameworks, portals and applications an SME must go through is overwhelming. We've spent months applying to all relevant MoD and Crown Commercial Service frameworks. There are so many clusters and initiatives, but no joined-up approach. Turnover thresholds are another barrier – the MoD sometimes sets arbitrary requirements like a £9m minimum turnover, which excludes smaller

**"We've succeeded by forming partnerships with slightly larger companies."**

**Richard Glyn-Jones**

but highly capable firms. Even after registration, it's hard to identify opportunities. We often miss out because frameworks are so rigid; we can't always apply directly for specific opportunities.

**Nick Tudor** The MoD's target for 25 per cent of spending to go to SMEs has never been met. When the MoD or primes talk about engaging SMEs, much of it is just ticking boxes. And where SMEs are used, it's often for work primes don't want. A big company might outsource overflow work like pressing rivets or machining, and that counts as 'SME engagement'. Real engagement should be about innovation and new ideas, not subcontracting manufacturing.

However, innovation by SMEs is seen as risky. Primes worry that adopting new, more efficient technologies could reduce revenue or margins – "You'll make me look

inefficient. You'll take away my people or revenue." We've demonstrated up to 80 per cent cost savings in software development, but the MoD and primes are slow to adopt it.

**Horsfall** We don't see a pipeline.

You can't gear up for invisible opportunities.

**Malone** Too much innovation is trapped at the top. Some of the best innovation in manufacturing is here in the UK, but SMEs struggle to engage with the primes and higher tiers because there's a lack of understanding about what SMEs can deliver. There's also clear resistance from primes to work down the supply chain because they're concerned SMEs pose cyber risks, that an attack on a small supplier could impact their ability to deliver.

**MacWhirter** Are primes really looking for innovation? On massive programmes like Typhoon, the priority is delivery: primes aren't incentivised to innovate; they're incentivised to deliver on time and on budget. Primes want guaranteed volume; SMEs want guaranteed returns. The result is hesitation on both sides.

**Merrifield** For several years, we stopped focusing on the UK because it was too difficult to engage. We were told to go through the primes, but they're huge organisations without the capacity to seek out innovative SMEs. Although primes are required to engage with SMEs, in practice they rarely do.

**Walker** Many new programmes are being developed as frameworks rather than single contracts, which makes it harder for SMEs to judge where to invest their limited time and resources. Defence innovation often requires integration, combining technologies, processes and people. Larger primes are less likely to take technical risks, as their systems are designed for certainty and safety. That creates a mismatch between research organisations and manufacturing primes.

Defence tends to over-specify requirements; everything takes too long. That model doesn't fit the pace of modern conflict or innovation, as we've seen with Ukraine.



## THE OPPORTUNITIES

- Opportunities for SMEs are huge, with a government target for 25 per cent of MoD spend to go to smaller businesses.
- The sector is undergoing restructuring with the appointment of a national armaments director and the creation of UK Defence Innovation to co-ordinate engagement and innovation.
- The Midlands is emerging as a leading region for foreign direct investment in defence and advanced manufacturing, second only to London.
- Cross-sector collaboration (civil, space, defence) is slowly improving, opening new routes for dual-use innovation.

## THE CHALLENGES

- Barriers include: over-complex procurement routes; over-specification; high compliance thresholds; slow and opaque processes; risk without adequate reward, and lack of points of contact to co-ordinate SME access.
- Primes often act as gatekeepers, limiting direct SME access and often outsourcing only low-risk, low-value tasks. Often they see SME innovation as risky.
- Too many SME innovations are developed without considering lifecycle support.
- The MoD focuses on buying capability rather than technology, which requires long-term integration, training and support – often beyond SMEs.

## THE SOLUTIONS

- SMEs need to articulate their value and reliability better.
- Large contractors should actively mentor and sponsor SMEs, integrating them early in programme design.
- Invest early in compliance – cyber security, security check (SC) clearance and ISO standards are prerequisites.
- Form partnerships or consortia with mid-tier or prime suppliers to meet size and delivery requirements.
- Procurement frameworks should reward agility and innovation, not just compliance.
- The MoD needs to show greater transparency of upcoming opportunities and clearer communication to unlock SME potential.

We need to shift towards problem statements rather than prescriptive specifications. That would encourage collaboration and naturally draw innovation from SMEs.

**Maguire** That's the crux, risk and reward. Too often, risk is pushed down the chain disproportionately. Someone, somewhere, has to blink first, otherwise everything grinds to a halt. Once SMEs are in, it gets easier. You can invest confidently. But breaking through that first layer is the hardest part.

**Jenkins** The main challenge is contract size. We're a £200m turnover business, but many defence projects are £200m each. We'd like to see those projects broken down, modularised, so SMEs can bid for sections like R&D facilities or logistics hubs.

### How can SMEs best prepare for the opportunities?

**Darin Tudor** Getting into defence takes investment in time, effort and money. It's a contact sport. You have to network, build trust and put in the hours. If your technology or product isn't ready, be brave enough to divert.

**Hines** SMEs need guidance on essentials like site security and cyber compliance, things they might not even consider when bidding. Many look abroad, because they find international departments like DBT



Nick Tudor



Peter Merrifield



Steve Malone

[Department for Business & Trade] more accessible than domestic routes. As I said before, SMEs lack the resources to chase tenders or write complex bids.

**MacWhirter** There's an obligation on SMEs to demonstrate the value, but the MoD also needs to find better routes for innovation. Perhaps the new structure will help. At Capgemini, we often absorb risk on behalf of the MoD and act as a bridge for smaller companies. That model could work more widely if larger companies stepped up.

**Glyn-Jones** When we worked with Australia, every state had its own Defence Innovation Cluster, and they co-ordinated brilliantly. We don't see that level of alignment here. We've succeeded by forming partnerships with slightly larger companies in design integration roles. That's helped us access MoD programmes.

**Mair** Good practice does exist. We've run programmes that move from expression of interest to contract in three weeks, robust but fast. We've also involved end users from companies like Rolls-Royce and MBDA, helping SMEs connect directly to primes. It often comes down to mindset. Some organisations get it, some don't. It's not just a public versus private issue; it's cultural. We need to prove there's another way.