

18 March 2011

## **Submission to the Review of Defence Recognised Supplier Scheme (DRSS) and the Unsolicited Promotional Products Offer Scheme (UPPO)**

**Background.** In March 2011 the Defence Materiel Organisation (DMO) undertook to review the Defence Recognised Supplier Scheme (DRSS) and the Unsolicited Promotional Products Offer Scheme (UPPO – familiar to industry as Unsolicited Proposals) to determine the ongoing value and future direction of both schemes. ABDIU supports this review so that Defence aims for schemes that offer value to both Defence and industry.

**Aim.** The aim of this submission is to provide DMO with broad industry comment on both these schemes. Industry comment was derived from discussion at a ABDIU Corporate Members Roundtable on 8 October 2010 and member submissions in February/March 2011 based on DMO's focus questions.

**Outcomes.** The ABDIU seeks to provide DMO with industry comment on these schemes to help develop a better outcome in the future. The ABDIU would welcome the opportunity to assist to develop or comment on new draft application processes for future schemes.

### **Defence Recognised Supplier Scheme (DRSS)**

#### **Application Process**

1. How did you first find out about the DRSS Scheme?

Companies provided various responses to this question with no consistent marketing channel being obviously dominant. Responses included :

- It was noted from the use of DRSS logos by other companies in the sector;
- If you are in the sector then it is common knowledge;
- Defence staff suggested it; and
- The DMO website.

There is not a lot of information in the public domain about the value of the scheme and the benefits that it can provide to industry including in major Defence documents that are used by industry. In the Defence Industry Policy Statement 2010 (DIPS 2010) the DRSS is mentioned in the context of the role of the Business Access Offices (BAO) and there is no mention of the DRSS in the Defence Capability Plan (DCP). The DRSS is not evident on the main page of the Defence+Industry ePortal.

2. Why did you initially apply for DRSS acknowledgment?

Companies view DRSS acknowledgement has bringing increased credibility and profile in the defence marketplace; providing a sense of pride for staff; and potentially opening up new international or other sector markets. The majority of respondents that have applied for DRSS acknowledgement are SMEs highlighting the perceived value of market credibility provided by the scheme for this sector.

3. What was your "application" experience like?

Companies highlighted poor experiences with a lack of contact in person or discussions about company capability. Other companies found it difficult to solicit a response from DMO even following several telephone enquiries.

Other commentators found the process well-structured and rigorous.

The range of responses may indicate problems with internal processes within DMO or the companies involved. However, as the BAOs are listed as the processing contact for the DRSS, some improvement in BAO communication and follow-up procedures may be required as companies also regularly note these problems in relation to the UPPO scheme and their respective BAO.

### Using the DRSS Acknowledgement

4. How do you use your DRSS acknowledgement?

Companies use the DRSS logos on various marketing collateral including websites, emails, letterheads, brochures, tender submissions and published documents. For an SME this acknowledgement can allow a smaller company to compete more effectively with larger suppliers, albeit maybe by offering only a small advantage.

DRSS acknowledgement is used by companies for export marketing such as in collateral for international trade missions. The ABDIU suggests that comment from both the Defence Export Unit and Austrade may offer additional clarity on the value of this international marketing.

5. What has been the result of that usage for your organisation?

Companies found it difficult to objectively determine results from using the DRSS. Commonly it has assisted in the development of staff pride in their role supporting the ADF as well as aiding the credibility of these companies in the marketplace both with Defence but other Government clients and prime contractors.

Most companies and staff involved in the defence sector take great pride in the supporting role they play to the ADF. DRSS acknowledgement is one part of engendering this sense of purpose that can be called upon when required by the Federal Government and Defence.

Therefore the results of DRSS usage tend to be relatively intangible for both the company and Defence.

6. Can you identify direct and indirect benefits/outcomes for your organisation?

Companies perceive the intangible marketing and corporate pride benefits as most significant. Companies perceived that Defence customers felt more comfortable dealing with DRSS recognised suppliers. No studies could be identified that provided data on direct benefits.

7. Is the DRSS acknowledgement meeting your expectations? Give reasons.

The DRSS is not meeting the expectations of companies despite the high perceived value of the scheme. Companies felt that Defence offered little recognition of their capability, even recognised Strategic Suppliers. Some Strategic Suppliers had not been consulted by Defence regarding the maintenance of their capability and indeed, these companies had observed counter behaviour by the Defence customer in specific instances. The DRSS was therefore not seen as valuable for the maintenance of ongoing business let alone new business with Defence.

The determination by Defence between suppliers with strategic capability or general goods & service capability is also affecting company expectations. This may be related to Defence sponsors not being adequately chosen to identify the capabilities offered by the companies.

### **Future of the DRSS**

8. Is there a valid and useful purpose for DRSS in the future? If not - why not? If yes - why and how?

There is a valid and useful purpose for the DRSS in the future, particularly for SMEs who are seeking to grow their presence in the market. As stated already, the main outcomes from an industry perspective are intangible benefits however if there is one overarching factor it must be as a value-adding proposition to the retention of both companies and skilled staff within the defence industry sector.

Larger companies do not need the DRSS acknowledgement as much as SMEs. However, larger companies commented that DMO's efforts in industry engagement should be commended although there was a view that the range of support programs could be consolidated to improve Defence and industry interaction. The range of apparently overlapping programs listed on DMO's website is quoted as an example.

Companies suggested that aligning the DRSS with the PIC program would provide the most useful benefit in the future. Building on this the DRSS could be a starting point for additional DSTO and industry dialogue to build on these identified PIC contributors.

This greater clarity of the DRSS criteria would also enable prime contractors, partnering companies or Defence to truly assess the potential value of working with a DRSS recognised supplier. The present criteria do not permit this to occur.

9. If the program ceased, what would be the impact on your organisation?

Companies reported that closing the program as it currently operates would have only a minor effect on tangible outcomes. However, some companies felt that there would be a loss of corporate pride amongst staff, loss of credibility with stakeholders and a financial cost to change marketing collateral.

While largely intangible, recognition as a contributor to Defence capability is strongly felt by defence industry and while only one aspect, the DRSS does provide a small token of recognition to industry by its sole customer. One company described the DRSS as an *important part of the Defence+industry ecosystem*.

10. To be valid and useful in the future, does any aspect of the DRSS program need to change? How and why?

It may be useful if future schemes better articulate the value that acknowledgment can bring. This value needs to be developed jointly between Defence and industry as the DRSS could be utilised as an additional 'readiness' test for potential exporters or global supply chain program entrants. It could not be a mandatory requirement however as many companies have found export success before their products and services have been subsequently purchased by Defence here in Australia.

The definitions for the two classes of supplier currently lacks clarity and may benefit from redefining suppliers along Priority Industry Capability (PIC) Supplier and General Supplier lines. With greater definition of PICs from the work currently being undertaken by DMO, it may be possible to enhance the value of the DRSS through a scheme that acknowledges PIC Suppliers and General Suppliers.

Properly constructed, such a scheme would not necessarily obligate Defence to an increased expectation from PIC-recognised suppliers for Defence market interventions. However, it is clear that Defence needs to articulate and demonstrate to suppliers what DRSS or similar recognition means to the Defence or prime customer. This likely includes more rigorous and regular interaction between the supplier and the Defence customer representative.

Recognition could also be differentiated by the Service supported where applicable, i.e. the DRSS logo could include a defining customer – Army, Navy, Airforce. This might not be applicable to all DRSS suppliers but could offer marketing advantages to niche SMEs. DRSS acknowledgement could include a performance measure, such as a star rating, to further differentiate suppliers. Ultimately the logo and certificate needs to quickly offer visual confirmation that the supplier is rated as a good performer for the Defence customer with as much definition of importance to capability and relative performance as possible.

Significant marketing opportunities for the DRSS are being missed. Firstly, marketing needs to identify the value of the scheme for industry and Defence; secondly, this value and the associated processes of the scheme should be clearly evident on the front page of the Defence+Industry ePortal as this is the main tenant of two way flow of Defence and industry information according to the DIPS 2010. Highlighting the DRSS on this webpage as is the SADI program, as well as a separate section under the 'Doing Business with Defence' page, could facilitate better knowledge and use of the scheme by industry.

Opportunities to improve the current application process could include having the BAO and a relevant Defence customer area visit and discuss the application with the company as part of the verification process as well as for renewals. Success will be dependant on the BAO being able to identify and liaise with the best customer area that would support both the objectives of Defence and the company applying for recognition.

The DRSS program should report publically to the Defence Industry Innovation Board in order for the effectiveness of the program to be measured and potential synergies with other Defence programs identified.

## Unsolicited Promotional Products Offer Scheme (UPPO)

### Application Process

1. How did you first find out about the UPPO Program?

Most companies found out about the UPPO program via the DMO website or from suggestions by BAO staff.

The UPPO program is not mentioned in any detail in DIPS 2010 nor the DCP which are two documents at the forefront of Defence and industry communication. As the primary means for industry to offer goods and services to Defence outside of formal approaches to market, this program should be highly visible on the Defence+Industry ePortal and in these documents including Defence's desired outcome from the program.

2. Why did you initially apply through the UPPO Program?

Companies initially began to use the UPPO program as:

- A means to promote technological innovation within Defence. Companies, particularly innovative ones, continually improve products and services to suit constantly evolving markets and the UPPO program allows companies to offer these improvements to Defence.
- In recent years Defence users, capability, acquisition and sustainment staff have become more difficult to access by industry, particularly by SMEs, therefore the UPPO program offers business development avenues that were previously based on more personal relationships.
- The flexibility and commercial realities of SMEs to offer new and innovative products means that waiting for Defence to identify a new requirement or issue an approach to market is beyond the scope for many companies. If they develop an innovative product or service, or gain representation rights from international suppliers, the UPPO program is often the only means to connect Defence with the new capability in a timely fashion.
- Companies use the UPPO program as one of the only remaining formal marketing channels to submit goods and services to Defence for consideration.

3. What did you expect to gain from the submission of your UPPO?

Companies expect a considered and documented review of the offered goods or services, including reasons for rejection if applicable. Most companies questioned were seeking to create a 'win-win' of enhancing ADF capability while improving the commercial viability of the company's presence in the defence market.

Companies expect to gain a contact point within Defence that can assist them to further develop or reject the basis of the goods and services offered so that the company can either eventually develop the product to meet a capability gap or cease development of the capability.

4. What was your "application" experience like?

Application experiences were mixed. Some companies found the experience to be process-driven in which the responsible Defence officer either could not identify a relevant Defence user/contact to direct the submission to, or the Defence user/contact was either too occupied or not equipped to perform a thorough analysis of the submission. A number of companies noted that UPPO submissions generated little initial response from Defence and no or very delayed feedback.

Other companies found the process worked well after the company had developed a standard in-house template and hand-delivered the submissions to the BAO.

### **Feedback Process**

5. What was the outcome of your UPPO application?

Companies state that they often receive rejected applications with little feedback or ideas for improvement from Defence. Responses have also included recommendations to monitor Austender as the only significant feedback.

Companies understand the need for Defence to demonstrate appropriate probity and due diligence in their dealings with commercial entities however the responses to submissions have given the impression to companies that Defence contacts were only achieving process resolution rather than a possible outcome. This makes it difficult for companies to determine if there is actually any real interest from Defence in the submission.

6. Can you identify direct and indirect benefits/outcomes-for your organisation?

Companies that responded were unable to identify any direct benefits for their organisations from participating in the UPPO program as a result of the lack of detailed feedback from Defence.

Companies noted that approaches to market issued subsequent to their UPPO submissions may have been related to the submissions but this is difficult to qualify. The most direct benefit noted was the establishment of a contact within Defence and the commencement of a capability dialogue.

7. Did the UPPO Program meet your expectations? Give reasons.

All respondents indicated that the UPPO program did not meet their expectations.

Companies expected documented feedback and a willingness from Defence to engage in a program that potentially can keep Defence aware of new and emerging technologies and innovations.

Companies noted that Defence states that it seeks innovation including through the use of staff officers in Capability Development Group (CDG) and the three Service headquarters to study emerging trends in doctrine and capability. There is also a perceived Government desire for COTS/MOTS solutions and companies see the UPPO program as another means for these staff officers to remain aware of some of the latest innovations available from defence industry or being used by other international customers. Companies felt that Defence is missing this opportunity particularly when products in use by US and UK militaries already were given little consideration when offered through the UPPO program.

At the least, companies expected that a submission would create some form of dialogue to provide the company with more direction particularly after the time spent on the UPPO submission. Like in a formal Defence approach to market, the opportunity for companies to take advantage of an offered debrief, by the Defence capability expert rather than the BAO, was expected by companies.

### **Future of the UPPO program**

8. Is there an ongoing valid purpose for UPPO in the future? If not - why not? If yes - why and how?

Companies strongly believe that there is a valid purpose for the UPPO program. It offers SMEs, particularly those with low risk, low cost COTS/MOTS solutions, a means to submit goods and services to Defence for consideration. For higher risk solutions the UPPO program may only be a means to establish dialogue between Defence and industry and as an adjunct to other processes such as Environmental Working Groups or more formal approaches to market.

Companies felt that the UPPO program is vital for SMEs to maintain access to Defence capability managers and as a potential stimulus for Minor Capital Equipment projects. Companies felt that the UPPO program should have strong links to the Minors, rapid acquisitions and sustainment program areas as a means to better connect submissions with potential users. Companies see the UPPO program as another means to get innovation to deployed ADF forces faster than standard capability development and acquisition practices.

An UPPO proposal, taken up efficiently, also has the potential to lower Defence costs for low risk, low cost solutions through sole sourcing, at least in the initial contract. Government states that it seeks innovation within Defence and SMEs offering this innovation should be offered an appropriate return on investment to justify their effort in pursuing an UPPO

proposal particularly when that may mean that Defence submits the company's idea, if not intellectual property, to an open approach to market.

9. If the program ceased - what would be the impact on your organisation?

If the UPPO program ceased companies felt that both they and Defence would lose an important channel for communication, particularly for SMEs. The UPPO program is one of the few remaining low-cost direct marketing channel open to SMEs when dealing with Defence.

10. To be valid and useful in the future does any aspect of the UPPO program need to change? How and why?

- Defence could include on the UPPO documentation a set of broad user requirements, updated each year that they may be seeking. This would enable companies to better identify potential products that would interest the Defence customer. Submissions meeting one or more of these requirements could be treated with a higher level urgency than a more general submission. These need not be PICs, nor be reinvented, as the Minors programs often publish similar broad requirements that may be useful for this purpose. The US Comparative Test Officer (CTO) program publishes a similar regime of requirements and could be another model for this style of approach. Having requirements provided by users also facilitates the overall usefulness of the UPPO program and a broader and more effective engagement and education of Defence staff outside of the BAOs and DMO on the UPPO program and its value.
- UPPO forms and submission processes need to be contemporary and clear. Current UPPO brochures state that submissions are required in triplicate hardcopy while other sources provide an email address for submissions. Formal submission processes similar to approaches to market should be used whether that be electronic or hardcopy however electronic submission offers a number of advantages to both parties.
- Include additional information requirements in the UPPO proposal form to provide Defence with a greater ability to assess commercial risk such as a compliance statement with an appropriate ASDEFCON template.
- Improve the criteria for the submission of an UPPO proposal including the option for companies to 'enhance' their offering through complying with the following criteria :
  - Successful in-service record with one or more international militaries;
  - Unique or novel concept not already in-service with the ADF; and
  - Clearly identifiable benefits to the ADF via enhanced capability/capabilities.
- Institute an improved process flow for submissions including formal receipt, better feedback on where the submission has been directed and ideally an offer of an in person debrief for the company. Companies should be given a submission log number and date by which Defence undertakes to respond to the submission.

- Improved methods for BAOs to identify and direct submissions to potential users or capability managers rather than simply a Service headquarters. Potentially submissions could be directed to multiple recipients including Service headquarters, CDG, DMO divisions, Minors project officers and Joint Logistics Command. A central database linked to the ePortal, behind the Defence firewall, could minimize duplicate information, allow multiple distributions/reports, allow better monitoring of follow-ups and developments and provide a realistic purpose for Defence staff to use the data in the ePortal. This would provide further weight to industry maintaining their respective data entries on the ePortal. In addition, a central repository of data could facilitate future Defence capability searches as new and urgent requirements arise.
- Increased publicity of the UPPO program and processes include highlighting the program on the front of the ePortal. This includes greater publicity of the UPPO program both to industry but also other areas of Defence most notably divisions within DMO, Minors programs, CDG and Joint Logistic Command.
- The UPPO program should report publically to the Defence Industry Innovation Board in order for the effectiveness of the program to be measured and potential synergies with other Defence programs identified.

**ABDIU Contact.** For further information on this submission please contact Ben White, Manager ABDIU on tel (02) 6239 1488 or email [defence@abdefence.com.au](mailto:defence@abdefence.com.au)

**About Us.** The Australian Business Defence Industry Unit, is a part of the NSW Business Chamber - an independent member-based organisation formed in 1885, now with over 5,000 full member companies and 23,000 associate members. Nationally the Chamber is part of the Australian ChamberNet – connecting over 100,000 locations covering 1.5 million employees across Australia.

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