

# MOD-industry collaboration: a roadmap for success

*Collaboration has long been argued for as a potential solution to both improving MOD/industry relations and getting a better view of, and approach to, Value for Money. Here, Bob Barton, Managing Director of Niteworks, looks at potential pitfalls and success stories which may point the way forward for a greater level of collaboration in defence.*



Picture courtesy of Defence Codex

While by definition there exists a constant pressure – and rightly so – to deliver Value for Money (VfM) from the acquisition process, the default mechanism for achieving this has for some time been competition. In the defence sector, there has always been a steady mix of new (usually smaller) entrant companies, but over the last three decades there has also been huge consolidation, resulting in the emergence of a number of effective monopolies. The UK defence marketplace has become too small and major equipment 'replacement' cycles too long to sustain indigenous competition. This, in turn, has reduced the ability of the MOD to hold effective competition on an enduring basis.

In a number of areas of the defence marketplace a situation now exists which, to all intents and purposes, is a monopsony (the MOD) facing up to a monopoly (a single industry provider). This relationship is fraught with difficulties, with both sides finding it challenging to satisfy the twin goals of VfM (MOD) and shareholder value (industry).

So, how does collaboration fit in? First, it is important to draw a clear distinction between partnering and collaboration. There is undoubtedly a logic for better partnering in the long-duration, long cycle-time major equipment areas such as missiles, ships, helicopters, submarines and munitions: this recognises that there are dominant Prime Contractors in these areas. But where there is a more diverse industrial base, the approach should be more collaborative.

## MOD-industry collaboration

Within a collaborative environment, issues can be resolved through a quality, data-rich dialogue around affordability, where parameters such as need, appropriateness and cost-effectiveness of solution can be debated. Effectively a 'trade space' can be established – which is infinitely superior to the singular process of specification and offer which characterises a compliant bid process. Within a collaborative environment where trading becomes essential to both sides, levels of openness and honesty are often significantly improved, leading to a far better and earlier treatment of risks and opportunities.

Why then is collaboration so little used and why, apparently, is it so difficult? In truth, collaboration is much harder than is immediately obvious. It is inhibited by deeply ingrained assumptions which have been shaped by decades of weak collaborative practice and a 'winner takes all' approach.

EU competition law has enshrined the need to employ appropriate competition in procurements. While the defence area has to comply with EU articles, there is very little recognition within EU law of the unique circumstances which constitute the

defence environment. Clearly, in a near monopsony/monopoly situation, the simplistic application of competition is not appropriate. Too often, however, competition is used as a default rather than entering into a process of consultation or collaboration.

Collaboration, however, cannot be entered into lightly. It is harder to set up than the one-to-one relationships which characterise much of the MOD/industry project environment. The 'system' mitigates against collaboration (and indeed partnering) in favour of competition and this means that those within MOD Delivery Teams seeking to deliver collaborative ventures often obtain little encouragement to do so. Quite simply, it is easier and less trouble to write a specification and hold a competition.

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If the difficulties of collaboration make the initial arrangements problematic, then the spectre of Intellectual Property Rights (IPR) compounds it significantly. Worse still, their continuation becomes ever more challenging as the sustaining mechanism requires constant 'feeding' in the form of energy, effort and financial support, which can often be missing.

An example of an enduring collaboration is the Niteworks partnership, which took almost a year to set up but has thrived and remained relevant for some seven years – due in no small measure to support from senior levels within the MOD and, significantly, its sustained funding arrangements. Niteworks was originally established on a ticket to bring together the capabilities that industry and MOD can collectively offer to the experimentation 'party'. But is it possible to make this work across the full spectrum of what is otherwise a naturally competitive environment?

## The Limits of Collaboration

Contracting for specific solutions requires a taut arrangement, although even within such a set-up there needs to be a much greater recognition of the inevitable

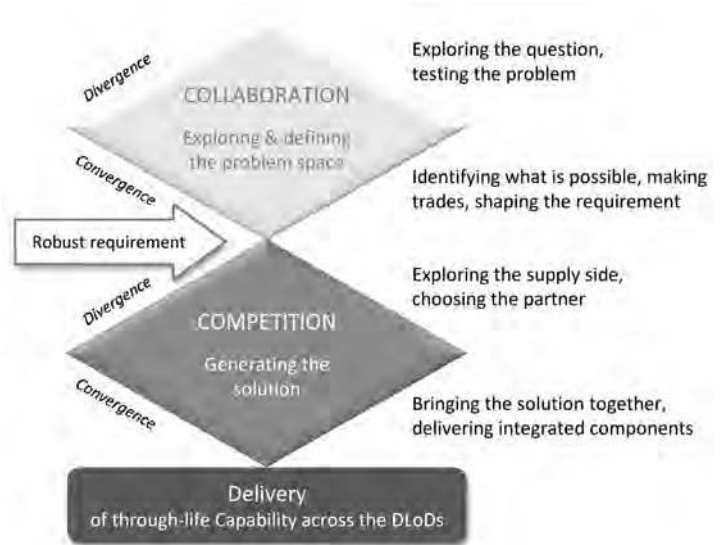
changes and problems which emerge as the contract is fulfilled. It is impossible to foresee all the problems and to realistically plan to a low level of detail for the full programme at the outset, but, sadly, this is usually the situation prescribed (or expected) by both contracting parties. Consequently, the necessity of flexibility or ability to trade – as a two-way process – is often unachieved in one-to-one relationships.

In 'one-to-many' collaborative arrangements, the protection of background IPR is a critical consideration for all suppliers. Clearly for the industrial players, IPR represents their 'crown jewels'; it is the primary means of establishing their competitive position and consequently something which they will be in no position to give up lightly. However, the misplaced treatment of IPR can be an inhibitor to developing relationships. Historically, poor IPR behaviour on both sides of the MOD/industry divide has adversely impacted the potential for collaborative arrangements. For example, the MOD would argue that industry can be 'over-protective' of their IPR; from the other side, there are examples quoted by industry of competitive early bid responses, involving IPR release, which subsequently find their way into the next 'Invitation to Tender', destroying any advantage that the IPR owner may have thought they had. Such behaviour is death to any level of disclosure, which ironically can then be viewed by MOD as 'unhelpful'.

Niteworks has developed a model for effective MOD/industry collaboration across its membership, based on experience in many MOD projects over the last seven years. In carrying these out, Niteworks has developed ways of working which have been tested via practical exemplars, captured in the model shown right.

The key aspects of the model are the two convergent-divergent phases, only one of which (the upper) is regarded as the 'collaborative region'. It is vital to maintain the 'air gap' between the two as this is the region where the competitive arrangements are formed. The lower diamond can, of course, be done collaboratively, but is subject to EU competitive legislation and any opportunity here must be under specific commercial arrangements.

In summary, it is clear that there is a spectrum of opportunity over which the collaborative model can be made to work. To achieve this, it is critical that the MOD recognises the value of collaboration (especially in the sectors where there are many companies playing, such as ISTAR and Land) and fully commits to and exploits those collaborations it has established. Depending upon the aspect of acquisition (eg technology development, decision support, post-acquisition



integration/exploitation), there will be a different appropriate commercial construct (including IPR and funding) for collaboration. Consequently, the MOD and industry should identify the areas of greatest need and design a collaborative solution for these, as funding allows. Niteworks has a wealth of experience in the collaborative territory and it can play a leading role in the future establishment, sustainment and support of such options.



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