

Marketing to the global defence market from the point of view of a small manufacturer

We, Sepson, make hydraulically driven winches for vehicle mounting which are winches for heavy recovery, self recovery and loading. We are a small company with 14 employees but we had sales of 7 million Euros last year of which approximately 50 % were for military vehicles. We export 95 % of our production volume. We design, assemble and sell winches which are made with components from suppliers in Sweden and other countries. Our winches are also manufactured under license in Hungary and Poland and will be in Spain, Turkey and India to meet demands for local content.

Our customers are never the armed forces. We sell to vehicle manufacturers and builders of automotive bodies and we frequently need to accept the end customer's commercial and technical specifications and conditions.

Our markets are in Europe, Asia, Australia and the Middle East but we have decided to exclude the American continents and Africa.

To be active on the defence market requires patience as it can take 4 – 7 years – or longer - from quotation to the first delivery but when it comes to delivery, it is almost always urgent.

Finding customers

The main obstacle in sales is to identify customers and establish a necessary personal relationship to convince them to work with us and buy our products. We have found that the best hunting grounds for chasing customers are international exhibitions. Not because the customers come to the exhibition but because our customers are exhibitors. Exhibitions often give you time to talk to key individuals and executives who are not always fully occupied during the exhibition. You get time to talk to them and share a beer. You get time to create friends and a good base for future business.

We participate in the major defence exhibitions such as Eurosatory in Paris and Idex in Abu Dhabi and others. Exhibitions are expensive, often boring but very effective. You get to know your colleagues, competitors, customers, suppliers and users. You get information and gossip and business leads.

As said – trade shows are good but expensive and compared to competitors in other countries we have been paying the full cost ourselves. Our Austrian colleagues paid Euro 1 500 for space in a national pavilion in Paris 2008 when we paid Euro 40 000. This year will however our cost be reduced with 50 % as we share in the Swedish pavilion arranged by our eminent association - Swedish Security & Defence Industry.

I like the idea with national pavilions. A national pavilion is always more interesting than a small company's display. A national pavilion attracts delegations including visitors from Sweden. There is much more activity in a national pavilion and you meet many more than you would have met in your own and separate display. A national pavilion also helps to create an active cluster of smaller and bigger companies that find it useful to co-operate in different ways.

So - if the authorities want to support small and mid-sized enterprises, one good deed is to support our costs for international trade shows as other European countries do.

Defence standards

Another obstacle in defence business is defence standards. We have signed contracts referring to MILSTD, DEFSTD, STANAG etc with several thousand of pages that I guess no one has read and understood completely.

Some of these standards are easy to get others are not available to small companies in countries outside of NATO and others are secret. We are able to obtain the standards we need through own contacts and through our customers but that does not solve the whole problem. You need to read the standards and understand what you are reading and even if you understand the words it does not mean you understand the meaning. And I am doubtful that the writers of the standards have understood them completely.

We have been and are still searching someone that – against payment – can assist us in reading and understanding all these standards but so far with very limited success. If the authorities want to promote and support small business, a service that can interpret and help us understand military standards would be very useful.

NATO

Not to be a company in a NATO country gives us a handicap in contact with NAMSA. I learned from NAMSA that companies within NATO countries are preferred suppliers. Due to that we have set up Sepson GmbH in Freiburg Germany and all our quotations to NAMSA will now be issued by our German subsidiary.

Barter trade

Barter trade requirements are nice when it is to your advantage otherwise it is no fun. As our total volume of components are quite limited and spread on several winch models we cannot divide our purchase of components from too many suppliers. We have in some cases made license agreement to create local content but in these cases we still have to supply a significant share of components as our license partners cannot find local supply at decent cost. I suggest that EU implements legislation that 20-25 % of a defence contract shall go to small companies regardless of location within the EU and not be part of barter trade requirements. A similar system as in USA.

Financing

Financing is another obstacle. Considering the extreme long time it can take from the first inquiry to a final sale, an exceptional burden is placed on the small enterprise which has to invest in time to develop the project's detailed quotation including obtaining and understanding the applicable military standards and specifications. It leaves very little room for extended payment terms or the frequent delays in receiving the funds after the products have been shipped.

The Swedish state owned export credit insurance institute – EKN – insures today accounts receivables even for small enterprises that is much appreciated but that does not include coverage for sales of defence material

As a small company you can get allowances from EU and the state for product development but not for development of what can be identified as defence material.

This puts additional strains on our ability to research and develop new and innovative products to compete with what often are large and financially strong competitors active on the international military markets. Small and mid-sized companies need the means to innovate which is often the strength of a small company. That is how we can compete with entrenched competition in this arena and open new avenues for sales and distribution with ideas and innovation rather than be forced to compete on price and rush deliveries.

Small companies in the supply chain

We, the small and mid size enterprises, are now mainly a link in the supply chain since we primarily do not deal in of systems to the defence forces but rather provide components to the manufacturers which are at the end of this chain and as such, are the partners of the world's armed forces. To strengthen and expand the Swedish links in the supply chain serving the military markets, it is important that more of us, the small and mid-sized companies, become active on the global defence market. That would strengthen the commercial and technical competence and reduce the dependence on the sales to the Swedish defence forces.

Here the big Swedish companies have an important task. By bringing our products out on the global market the domestic supply chain would be strengthened to benefit for us small as for the entire Swedish defence industry.

To maintain and further develop a Swedish supply chain for the defence industry, the small companies in the chain must be looked upon, not only as important sources of component but as an important part of the integrated industrial landscape. Most of us who are part of the defence supply chain are also active on the commercial market. The defence market is extremely demanding and is the driving force behind technical development and creation of new products. Products developed for defence applications have often been the cornerstone of successful commercial products. Defence orders finance development of commercial products.

Consequently, companies that are links in the supply chain to the military market will contribute, not only to defence, but can also be an important factor in commercial markets. By developing the companies in the defence supply chain, advanced technology will benefit the trade balance and employment.

Look on us in the defence industry as an asset that can contribute to the Nation's overall growth and economic health - look on us as raw diamonds that can be polished to shining stars.