

*Hawkesmore
Defence & Aerospace Insights*

*Turning Localization into a Competitive
Advantage*



The increased importance of Localization

'Localization', 'Emitarisation', 'Industrialization', it goes by many names, but what is clear is that the focus on the development of local capabilities is not going away and to be a success in the Middle East defence ecosystem, you need to take it seriously.

Recent changes in the KSA, UAE and Oman mean military acquisitions, and the application of offset and industrial participation schemes, now reside within the same organisations. The importance of offset and industrial participation programmes has just increased significantly in the decision-making process as to how these nations award defence contracts.

The traditional and historic concept of being the best technical capability provider, or providing the best value for money, and worrying about offset later, is now not a sustainable business model for success in the Middle East.

When deciding upon how, and who, to award defence contracts, these nations will now consider the industrial participation offering at least as important, if not more so, than technical compliance and value for money.

So why does this matter to your business?

The simple truth is that you cannot afford to ignore this change if you want long term success in the Middle East.

National development agendas are accelerating across the Middle East; note the KSA Vision 2030 localization objectives, the recent KSA law for relocating regional Head Quarters, and the recent announcement of 'Operation 300Bn' by the UAE.

Each of these agendas have strategies and focal areas for the achievement of their respective targets. Those international partners who engage with these nations at a strategic level, and as a partner to support them to achieve their targets and ambitions, will be looked upon favorably when it comes to defence contract awards.

There are too many examples of 'Industrial Agreements', 'MoU's' and other agreement forms signed to achieve short term public success, but intentions fade away quickly as they are not based on clearly defined development strategies.

Those companies that look at this proactively and as an opportunity to differentiate themselves in the market will be positioned strongly for long term success and can make **localization a competitive advantage**.

Differentiating yourself in an overcrowded market

With challenging times leading to budget cuts across the international defence community, an already saturated Middle East defence market is about to become even more overcrowded.

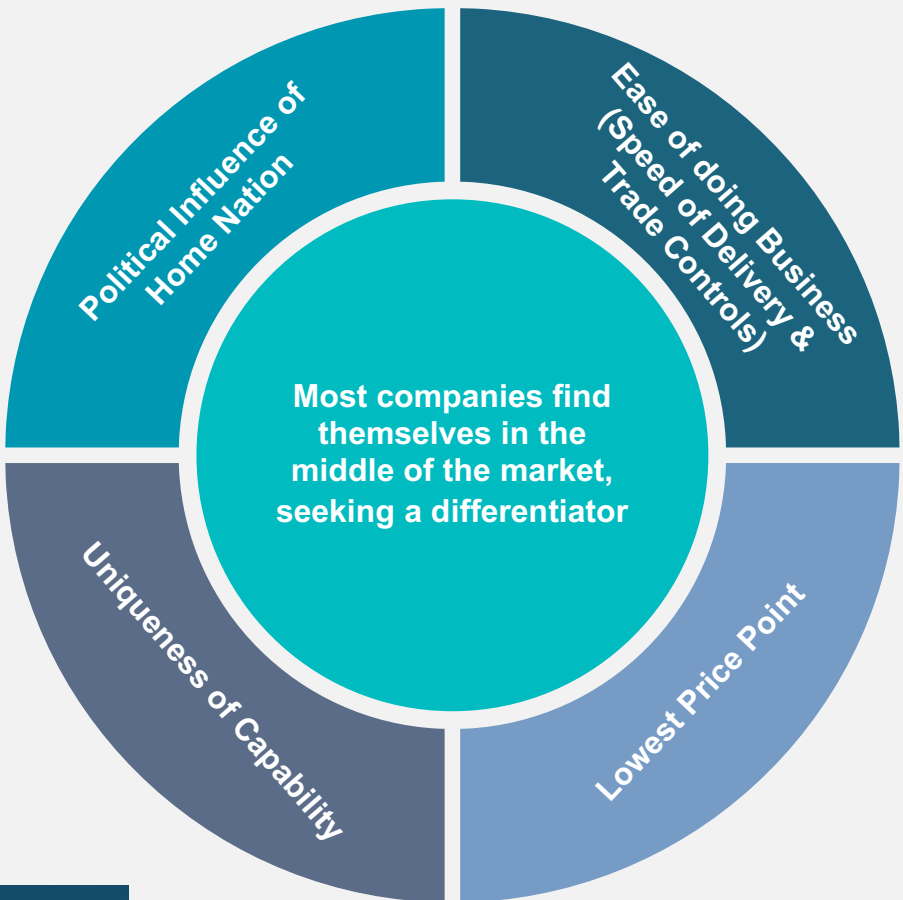
Most companies find themselves competing in the 'middle', either against those with lower price points, or against those from nations with lesser trade controls resulting in quicker and easier contracting.

There are some companies with generally unique capabilities, however these are very rare and becoming ever more so.

Companies can rely somewhat on the political influence and relationships of their home nations to achieve sales, but this is not a sustainable strategy and only works for those from nations with extensive political capital in the region.

As with any business, a differentiator is needed to ensure sustained regional revenues, and the opportunity is there for forward thinking companies to make localization their differentiator and **turn a previously considered burden into a competitive advantage.**

Differentiators in the Middle East Defence Market



Building a sustainable localization strategy

To achieve this differentiator, your business must start seeing localization, and its associated offset, as a strategic initiative as opposed to a tactical, deal-based problem. There are several elements that must be aligned for you to have an effective localization strategy:



Commit to it being a strategic initiative

Be prepared to commit resources to this, with the right expertise and knowledge of the defence ecosystem. This will be a central pillar to your business strategy in the region and should be treated as such.



Head Office Support & Engagement

The Board and Head Office must fully endorse this approach for it to be effective. If not, then it will be clear to all in the region as not being taken seriously and could have negative implications.



Treat it as a business wide strategy

Discussions with the respective national organisations should be at a strategic level with a common view presented by all Business Units. The traditional approach of each Business Unit managing their own offset is not the optimal approach.



Understand what each nation values

Really commit to understanding what each nation values, where they are seeking to build capability, and how you can support them in achieving it. Dictating to them what they should value has proven to be a flawed approach.



Alignment to national strategies

Analyse the nation's industrial, technology & skills development strategies to identify where you can align with them in terms of capability development. This is the optimal way to achieve the greatest offset multipliers.



Approach as an opportunity, not a burden

There are extensive funds for product enhancements, technology creation and R&D programmes. An open-minded approach may identify opportunities for you as a business to utilise these nations in a more effective manner.

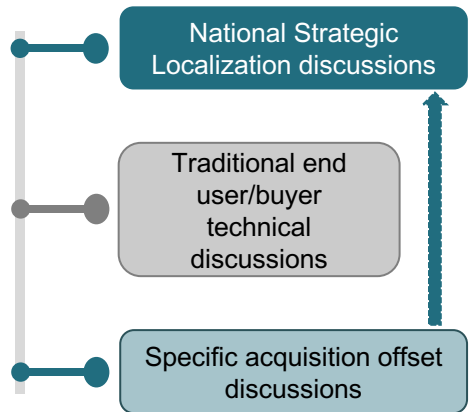
Why & how to create this competitive advantage

How to develop this competitive advantage?



Acquisition offset programmes should feed into a wider national localization strategy, informing how your company will support the capability, technology and skills development agenda of the nation. Isolated offset programmes, not linking into the overall national localization strategy should be avoided.

Strategic localization discussions should be bought up the communication chain, prior to specific acquisition discussions, to demonstrate commitment to the nation. This will not only put you in a stronger competitive position in the market, but also make the offset planning and negotiations for specific acquisitions smoother and resulting in higher multipliers achieved.



Why invest time, effort & focus on this?



Positions you strongly in the market

Those companies that demonstrate long term commitment to partner with Middle East nations, as opposed to a purely transactional relationship, continue to perform the best in the region. This is getting more important with market saturation and a greater focus on domestic industrial development.



Reduces offset burden on acquisition teams

The more national & indirect localization strategies developed, the less the burden on individual acquisition teams to localize the full offset burden on specific contracts. This will speed up contract negotiations dramatically.



Delivers the best multipliers over the long term

Investment in a robust & sustainable localization strategy ensures the capture of greater offset multipliers. Building national localization programmes in an innovative manner can be utilised for numerous offset programmes, significantly reducing time & money spent on individual offset plans.

Hawkesmore



Hawkesmore is a boutique advisory company focusing on delivering excellence across the Middle East. Our strategic advisors have over 30 years of deep expertise in the Middle East working across numerous industries supporting government, private, and international organisations to achieve strategic and programme excellence.

Hawkesmore has strategic advisory expertise across several sectors including Defence, Security & Emerging Technology. Working with our international experts, and regional partners, we bring the best capabilities, technologies and expertise to our Middle East clients, taking a leading role in driving the Middle East advancement agenda.

If you would like to know more about how we can support you with your localization challenges please do contact us:

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