

A full-page photograph of a worker in a steel mill. The worker is wearing a silver heat-reflective protective suit, a white hard hat, and heavy gloves. They are standing next to a large, glowing orange and yellow furnace. The background shows industrial machinery and pipes.

Growing your export supply chain business

Defence
Mining Equipment, Technology
& Services (METS)

export
finance
australia

Over the past few years there has been a steady rise in the number of Australian defence and METS small to medium-sized (SME) businesses taking on new opportunities in the export supply chain. With a highly skilled workforce, these SMEs are building Australia's capabilities in the global supply chain and taking on direct export opportunities.

Understanding how your business can take advantage of these opportunities is key to developing your business' export success. From establishing strong relationships and getting the right accreditation, to managing long payment terms and understanding your business cashflow – this guide is designed to help you grow your export-related business.

In this guide you will get an understanding of:

- The defence and METS industries in Australia
- Key steps to exporting
- How to develop the right networks and relationships
- The resources available to help you
- Steps to protecting your intellectual property (IP)
- The risks associated with exporting
- How to access finance for your export-related contracts

Key insights – Australia’s defence industry

Australian defence industry statistics*



Employs around 27,000 people

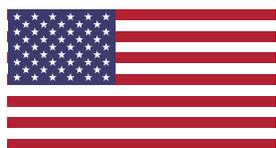


3,000+ SMEs operating in defence marketplace



Australian exports of defence products and services = \$750 million+

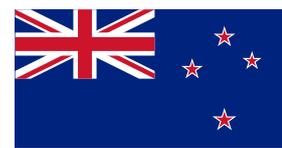
Main areas of export are:



United States



Europe



New Zealand

Statistics according to the Australian Defence Magazine 2016 survey

Total revenue of the Top 40 defence contractors = \$10.384 billion in 2016, up 11 per cent on the 2015 total of \$9.241 billion

Top 5 defence contractors:

BAE Systems Australia, Raytheon Australia, Thales Australia, Boeing Defence Australia (BDA), ASC

Total turnover of top 40 SMEs in the defence industry in 2016
\$800 million
 ▲ up from ▲
\$642.7 million in 2015

More than
1300
 defence industry jobs added to Australian economy in 2016

*Source: Austrade, 2016

Key insights – Australia’s METS industry*

<p>66%</p> <p>of METS companies exporting products and services</p>	 <p>South East Asia is a key export region for Australian METS</p>	 <p>Growth into the future expected in North and South America, particularly the US, Canada and Chile</p>	 <p>More than three-quarters of Australian METS invest in R&D</p>
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Top inventor locations for Patent Cooperation Treaty (PCT) applications for mining inventions:

 <p>Japan</p>	 <p>Germany</p>	 <p>Australia</p>
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Australian mining and METS sector

<p>Employed 368,000 highly skilled workers in FY12</p>	<p>\$90 billion revenue in FY12</p>	 <p>METS organisations accounted for the majority (~76%) of patents filed in the Australian mining sector between 1994 and 2011</p>
<p>3,000 - 4,000 METS businesses in 2013</p>	<p>80% of METS businesses are Australian owned</p>	
<p>\$15 billion of exports</p>	<p>\$1.18 billion expenditure on research and development in FY14</p>	
 <p>400 operating mines</p>	<p>\$133.2 billion in direct Gross Value Added (GVA) in 2015-16</p>	

* Source: CSIRO: Mining Equipment, Technology and Services | A roadmap for unlocking future growth opportunities for Australia, May 2017
 ** METS sector GVA based on a combination of published and existing estimates

Is your business part of an export supply chain?

If you are supplying equipment, technology and/or services into a mining or defence project where the end product is exported, and there is a close connection between what you provide under your contract and the performance of the export contract itself, then you may be an integral part of an export supply chain.

Do you need to sell directly to the exporter?

No. As long as the final product is exported you are considered an integral part of the export supply chain.

What is a supply chain?



Your business will be providing products and/or services to Company A



Company A needs your product and/or service to deliver on a contract with Company B



Company B will be exporting the end product

A W Bell is a family-owned metal casting and precision engineering business founded in 1952 in Melbourne.

Originally established as a patternmaking shop, A W Bell has grown steadily and is now focused on investment casting, sand casting, production machining and the manufacture of foundry equipment.

In response to the downturn of the automotive industry in Australia, A W Bell decided to diversify its business and enter the defence and aerospace sectors.

The business has grown to become a major supplier to the automotive, biomedical, defence and aerospace sectors.

A new opportunity

Following its decision to focus on advanced manufacturing within the defence sector, A W Bell became an accredited parts manufacturer for major US defence prime contractors.

A W Bell then won a contract with Northrop

Grumman to supply a metal housing and chassis-assembly for the sensory system on the F-35 Joint Strike Fighter aircraft.

These aircraft embody the next generation of strike aircraft weapon systems and bring together cutting-edge technologies from around the world.

Despite obtaining approval from the Defence Export Control Office for the export of military devices, A W Bell lacked sufficient working capital to cover its upfront expenses, including the high cost of obtaining the raw materials.

A helping hand

Export Finance Australia's Export Contract Loan allowed A W Bell to fulfil this large-scale contract and cement its status as a world leading manufacturer of parts for advanced defence systems.

By remaining on the front foot and targeting a new industry sector using its advanced manufacturing expertise, A W Bell has established a very strong platform for future growth.

Securing export-related contracts

The decision to enter into an export-related contract is a great opportunity for many SMEs to grow and expand sales, but it is not right for every business.

Before entering into export-related activity, you should address the following considerations to decide whether being part of an export supply chain is right for you:



Management commitment and resources

Expanding or investing overseas takes a lot of work. Do you have the right senior team in place to drive and support everything that is needed to make it work?



Export experience

The ability to draw on the export learnings of others is invaluable. Do you have staff or a network of contacts with export experience you can tap into for insights? Have you made contact with the relevant industry groups, like the Centre for Defence Industry Capability or METS Ignited?



Financial resources

Taking on new opportunities that are part of the export supply chain may take a toll on finances. From getting the right permits to long payment cycles – have you considered how you will finance your business growth?



Market demand

A solid customer base is critical if you want to grow your business. Are you confident demand is strong enough for your product or service? Do you have the resources ready for increased demand?



Market entry

Knowing demand exists is only the first step. Have you assessed your market entry options and requirements to set up your export supply chain business?



Timeframes

Getting your business ready to take on export-related contracts can be a long process: from making the decision to get accreditation to having the right resources and skills can take years. Have you factored realistic timeframes into your business planning?

Building an export-related strategy

Having a strategy is an essential component of your overall business plan. It doesn't need to be complicated, but at a minimum it should cover the following:

Domestic business overview

What is the current status of your domestic business?

Product / service

Does your product and/or service need to be adapted for your proposed export supply chain strategy, how will you brand and market your product?

Financial resources

What capital do you require for export-related growth, what costs and expenses do you estimate you will encounter, how will you source the finance you need?

Regulatory requirements

What are the government and industry standards that you will need to adhere to, the permits and accreditations you will need to apply for, the warranties and after-sales support that you will need to provide?

Market positioning

What market segment will your product or service be positioned for, where are they located, how much will they pay?

Competitors

Who are your competitors, what are their strengths, weaknesses, distribution strategy, price point and customer service strategy?

"Have a team in place that has done it before... They know what you don't know, they have been on the journey, they have made mistakes."

Matthew Michalewicz, Entrepreneur



"[We decided] we've got to be at the top of the market, to have a quality product and to be in a niche market."

Paul Cooper, Rinstrum

Entering new markets

Being part of an export supply chain may require a complete shift in the way you operate. Have you considered whether you need special accreditation? Will there be a need to travel overseas? An export supply chain contract may be the stepping stone to entering a new direct export opportunity. There will be challenges to face, so you should think about:



Regulations and compliance

Domestic and foreign markets are likely to have their own regulatory and compliance requirements, which come with practical and financial considerations. If you're in the defence supply chain you need to think about the Australian Government's Defence Export Controls procedure and whether you need to procure a special licence.



Protecting your intellectual property (IP)

Entering an export-related contract can present a lucrative opportunity for growth, providing access to potentially bigger markets around the world. You've spent a lot of time and money in developing your product and/or service – making sure you have the right IP protection is critical to ensure you get the best return on your investment.



Logistics

Many SME supply chain businesses overlook the time and resources that need to be dedicated to shipping and freighting. The logistics component of an export-related business can be substantial – how are you going to get your product to your customer, how long will it take, how much will it cost and how will you manage the process?



Cultural factors

It's important to consider whether there are any language, religious, cultural or climatic market factors you need to be aware of and adapt to. For example, in China red is considered good luck. If you're part of the supply chain, this may not seem as critical to you, however your supply chain contract could lead to your first direct export order.

Building the right relationships

Networks can encompass everything from friends, peers, other companies operating in similar markets or industries, professionals like lawyers and accountants, to mentors, government bodies and market partners. Understanding which associations can help you get the most out of your export supply chain opportunity is important.

Establishing broad and deep networks is a critical success factor in exporting and operating in a global supply chain. There are some simple things you can do to build your networks:



Industry associations

Every industry has at least one association which represents the interests of its members. Associations range in size and role but many will provide basic resources for members, publish a regular magazine with industry news and updates, organise events and provide a forum for sharing advice and knowledge.



Trade shows

Trade shows or expos both in Australia and in overseas markets are a great way to meet potential partners and customers by showcasing your goods and services. Contact your industry association and see if they have advice on which trade shows are best for building your export supply chain network.



Industry events and conferences

Industry events are a great way to meet peers and learn about their experiences as well as connect with potential customers. Organisations which provide support for exporters and export supply chain businesses, such as Austrade and Export Finance Australia, also host regular events providing information and advice for SMEs.



Face-to-face meetings

Meeting potential partners is vital. If you don't know where to start, the Centre for Defence Industry Capability and METS Ignited may be able to help you with introductions to advisors or potential clients.

Managing export risks

You may come up against different risks when operating in export supply chains compared to domestic market contracts. And if you're successful in securing a direct export contract there may be new risks to consider. Depending on the client and industry, some of the key risks you may encounter include:



Political risks

An uncertain political environment can hamper export operations in a number of ways. A trade embargo could affect delivery of goods, civil war or political violence could affect the safety of your staff and partners, political instability could result in defaults on payments, confiscation of property and assets, and blockages in transfer of earnings.



Legal risks

Legal requirements and processes can vary significantly across different markets and industries, so research and receive legal advice to understand your legal position. Some common considerations include: contract law, patent registration and IP requirements, product liability laws, dispute resolution processes and OH&S laws.



Operating risks

Exporters need to become familiar with the operating environment of new markets, as this can be very different to the Australian operating environment. Some important things to look out for are industrial relations policies and practices, permitting rules and import requirements.



Environmental risks

Natural disasters can occur anywhere in the world and can cause significant or even devastating damage to a business. While no one can predict natural disasters, it is important to be aware of the potential risks of your business location and how you might prepare for possible events.



Contract risks

Differences in contract law between countries means seeking legal advice on contract terms is important to ensure they are binding and enforceable – it's also important to understand the local business culture to ensure you have an appreciation of the expectations of doing business with local partners.



Currency risks

Adverse movements in exchange rates are an inherent risk of doing business overseas and can lead to a loss of earnings or profit. You can protect yourself by quoting only in Australian dollars or taking out a foreign exchange facility which will allow you to lock in exchange rates and hedge your currency exposure.

Protecting your IP*

Some SMEs can be reluctant to expose their business to the global market, fearing that their brands, products and designs will be quickly copied, and thus undermining their ability to compete. Conversely, others may be so keen to grasp the global opportunity, that they unwittingly expose themselves to significant IP risk.

IP protection is often about striking a balance between achieving maximum protection and managing IP costs. The solutions you choose to protect your IP in foreign markets will need to reflect your broader commercial business strategy, at home and abroad.

Consider your export strategy

Your IP strategy will be driven by your export strategy. It's important to be clear as early as possible what you want that to be. Ask yourself which markets offer the best potential for your business.

Do your research

While protecting your own IP is your first priority, you'll also need to ensure that by exporting to a new country, you aren't breaching someone else's IP. Your product or brand may be unique in your own market, but you'll need to ensure you're protected from costly legal challenges from potential competitors.

Choose your solutions

What is the most valuable component of your IP? Is it the design of your product? Your brand name? The software you've developed? Or a combination? Most businesses will need to decide which element (or elements of their product) to cover with IP protection. And the answer is not always straight forward.

Understand the costs

Protecting your IP across multiple markets can be an expensive exercise, especially if you're protecting more than one element of your product. While protecting everything upfront may be the best defence, it may prove to be financially out of reach.

Enlist expert advice

Professionals who specialise in international IP protection can offer solutions that you haven't yet considered, and can also give you access to the benefit of their experience. It's recommended that export supply chain businesses in the defence and METS space consult professionals to help ensure that your strategy offers the protection your business needs.



* The information on this page was sourced from the Export Finance Australia and IP Australia Protecting your IP overseas paper.

For more information on how you can protect your IP, download the IP Australia and Export Finance Australia **Protecting your IP overseas** specialist paper.

DOWNLOAD

Export-related finance

There are a number of differences between exporting or being part of the export supply chain and operating in Australia which will have an impact on your finances. Understanding all the costs associated with becoming part of an export supply chain will help you make an informed decision on whether your business is ready to start an export-related project. There are some crucial considerations to bear in mind:



Keep your financial health in check

As your business grows, you need to make sure you work with an accountant that understands the fundamentals of your business and where you are looking to go. Your accountant will help you stay on the right track with your financials as you expand into an export supply chain or take on new export opportunities.



Understand your cashflow requirements

One of the most common problems encountered by growing businesses is when their growth rate outstrips their capacity, which can create pressure on working capital. By developing detailed cashflow projections into the future, you can ensure you are able to plan and manage your cashflow accordingly to avoid problems.



Develop a financial plan

When you start winning export-related contracts, you need to be prepared for all finance eventualities. For example, export can mean a longer cashflow cycle, a greater risk of non-payment and exposure to foreign exchange risk. Putting together a detailed financial plan, one that you can easily adjust as you collect more data and change your assumptions, can help you determine if your export plan is viable.



Build a strong relationship with your banker

Your banker is crucial in your growth journey. Successful SMEs will keep their banker informed on a regular basis, by keeping them updated on what their business plans are, what direction they are heading in and any financial issues they anticipate. If you involve your banker closely in your business, it will be much easier to get help the day that you do run into trouble or need more capital.

Managing your finances

One of the most common problems for SMEs is funding growth. When exporting is part of the equation, financing becomes even more important and many businesses need support to enable them to fulfil their export-related contracts. Help is available from a number of sources:



Consider your options

When a contract comes in, think carefully about how you could fund it without entering into risky debt or putting a strain on cashflow – even your own client or suppliers might be able to help you.



Speak to your bank

Speak to your business banker who can assess your situation and advise you on your best course of action. Your bank may be able to offer you a secure loan or commercial bill facility to help you with financing your exports.



Think about alternative sources of funding

Export Finance Australia, Australia's export credit agency may be able to provide financial support to businesses looking to export or who are involved in an export-related supply chain, through their loans, guarantees and bonds.

Operating in international markets or with large primes can throw up a range of payment challenges. The payment terms that you offer your client can make a real difference to securing a contract, however, you also need to make sure you protect yourself to ensure you get paid.

There are some payment options to consider:



Prepayment

You receive some or all of the payment amount upfront.



Documentary collection

Which involves you shipping your goods or services but retaining control of them until you receive payment or a legal undertaking of future payment from your overseas buyer.



Open account

(Or open credit) which gives your buyer certain credit terms by delivering your goods or services with an invoice requesting payment on a specific date after delivery.

For more information on how you can manage your export cashflow, download Export Finance Australia's free [Five ways to manage your export cashflow](#) specialist paper.

[DOWNLOAD](#)

Marand



Photo courtesy of Marand

Case study

Marand is an award winning privately owned family business with a history spanning nearly 45 years. Established as a machine tool company servicing the automotive industry, Marand has successfully diversified and expanded its business and today is a leading global supplier of precision engineering solutions to a range of industries including aerospace, defence, rail and automotive.

Two large new contracts

Marand, partnered with Spanish company Danobat S Coop (Danobat) through a sub-contracting agreement to win a contract with BHP Billiton Iron Ore (BHPBIO), to design and construct a new railway maintenance workshop at Mooka, in Western Australia. The new automated facility is to accommodate BHPBIO's expansion in rolling stock as a result of significant recent growth.

Marand also won the contract to upgrade the rail service maintenance facility of Rio Tinto (Rio). Marand is Rio's key rail maintenance equipment supplier. As part of its Rail Capacity Enhancement project, Rio committed a significant sum for the upgrade of the rail service maintenance facility located near Karratha in Western Australia.

In total, these projects are worth in excess of \$130 million.

Marand needed to provide performance and warranty bonds to

"We could not have done these projects without Export Finance Australia's support. These projects would have gone to overseas competitors. Securing these contracts has increased our employment by 100 people."

David Ellul, Executive Chairman, Marand

secure the financing needed for these contracts. Marand's bank was unable to help due to a security shortfall. They contacted Export Finance Australia.

How we helped

We provided performance and warranty bonds in support of the separate contracts with BHPBIO and Rio subsidiary Hamersley Iron for the establishment of rail maintenance facilities in Western Australia.

These bonds allowed Marand to finance and secure these two important contracts with facilities beyond those already provided by its bank.

Guma IRCG



Photo courtesy of Guma IRCG

Guma IRCG is a mining services company located in the East Pilbara that provides civil and mining services support to major iron ore companies for the benefit of the Northwest Indigenous community.

This helps to ensure Aboriginal communities benefit from, and contribute to, the success of the region's mining sector.

Guma specialises in providing civil maintenance and construction support services, and has secured and delivered on a large number of contracts supporting the mining exports sector.

A high-profile contract

Guma secured a contract on the Roy Hill Iron Ore project to deliver, design and construct services for a rail office, rail workshop and crib infrastructure. The scope of the contract included design, deconstruction, transport, supply, reassembly, construction and installation works.

However, this contract had large guarantee obligations, with Guma required to submit A\$366,000 worth of bonds to guarantee delivery of the works.

Guma's banks were unable to provide a guarantee facility without 100 per cent security, despite Guma's excellent performance track record.

"The Roy Hill Iron Ore project is a significant contract for Guma and Export Finance Australia's support allowed us to secure this important project."

Angelo Radeski, Managing Director, Guma

One of Guma's service providers was aware of the financial solutions that Export Finance Australia provided and so suggested Guma get in touch to see if we could help.

Our financial solution

We issued two bonds totalling A\$366,000 to Guma's bank, which allowed the bank to issue its own bonds to Roy Hill in support of Guma's design and construction contract.

These bonds allowed Guma to meet its contractual obligations and to successfully deliver on the full scope of works for the project.

Not having working capital tied up also meant Guma could tender for new work at the same time, with Guma also seeing new opportunities opening up within the Roy Hill project.

Network resources

Defence



The Centre for Defence Industry Capability (CDIC)

The CDIC provides advice to the Australian defence industry, supports industry growth, and facilitates innovation. Previously known as the Global Supply Chain program, the CDIC can help you understand how you can become part of the global supply chain and work with prime contractors.

The CDIC provides an extensive range of information and advice to SMEs that are in the defence industry, including:

- Information on how you can access the Australian Industry Capability (AIC) program. This program provides SMEs opportunities to work with prime contractors.
- Steps on how you can access advisory and facilitation services to help you take advantage of development opportunities that exist in the defence sector.
- Information on how you can access grants for things like engaging a consultant.
- How you can work with the Department of Defence on an innovative idea you may have that will create opportunities in the defence space.
- Advice on how you can develop the right partnerships to help your business grow.

The CDIC's Next Generation Technologies Fund is a forward looking program that focuses on research in emerging and future technologies for the "future Defence force after next". The Government has allocated \$730 million over a decade, to June 2026.



Australian Industry & Defence Network

The Australian Industry & Defence Network Incorporated (AIDN) is the peak industry association for SMEs wanting to do business in the defence and security sectors.

Each state is represented by an AIDN State Group which liaises extensively with AIDN National on issues of direct interest to state members.

Networks resources Defence cont.

State-based government bodies can also help you understand the requirements and opportunities of undertaking defence export contracts and working in the global supply chain.

Defence Victoria

Grants ranging from \$2,000 up to \$50,000 are available under the Victorian Defence Industry Supply Chain Program to assist companies with eligible projects.

👉 www.business.vic.gov.au

Defence NSW

Defence NSW, an organisation within NSW Department of Industry, is responsible for coordinating all defence and defence industry-related activities for the NSW Government.

👉 www.industry.nsw.gov.au

Defence Industries Queensland

The Queensland Government established Defence Industries Queensland to support the state's defence industry, promoting a smart, connected and efficient defence industry.

👉 www.defenceindustries.qld.gov.au

Defence West – Western Australia

Promoting Western Australia's defence sector capability and capacity to deliver the nation's future shipbuilding and submarine programs.

👉 www.jtsi.wa.gov.au

Defence SA

A single point of contact for all defence stakeholders, streamlining their interaction across the South Australian Government.

Defence SA's mission is to grow the defence industry, and strengthen the Defence Force presence in the state.

👉 www.defencesa.com

Defence ACT

By working with innovative small, medium and large enterprises, world-class research and higher education institutions and national security agencies, Defence ACT is positioning the Canberra region to make the most of the opportunities arising from the Defence White Paper.

👉 www.cmd.act.gov.au

Defence NT

Defence NT works to support defence, the defence community, and businesses and industries that support defence.

The group helps to coordinate the Northern Territory Government's strategic engagement with defence and other governments to provide opportunities and increase industry engagement, business development and employment in the Northern Territory.

👉 www.nt.gov.au

Other resources

Austrade

For information on key markets and help accessing the right people in these markets.

👉 www.austrade.gov.au

Australian Military Sales Office

Supports the Australian defence industry to export leading-edge capability solutions to foreign government customers.

👉 www.defence.gov.au

Defence Export Control Office

Responsible to the Minister for Defence for regulating the export of defence and strategic goods and technologies.

👉 www.defence.gov.au

Export Finance Australia

Provides loans and guarantees to Australian businesses in the defence export supply chain when their bank may be unable to help.

👉 www.exportfinance.gov.au

Network resources

METS

METS Ignited

METS Ignited is an industry-led, government-funded, Growth Centre for the METS sector. METS Ignited works with Australian suppliers to the mining industry, global miners, research organisations and capital providers to improve the competitiveness and productivity of the Australian METS sector.

They provide a range of services to SMEs in the METS industry, including:

- Access to the METS Ignited Project Fund – a \$15.6 million, four-year initiative to support and fund sector-wide collaboration.
- Free masterclasses to help you understand and benefit from the changing METS landscape. Topics include digital disruption, winning more work, workforce of the future and key capital enablers.
- An accelerator program to help you turn your product into a sustainable business / opportunity.

🖱 www.metsignited.org

Austmine

Austmine is a not-for-profit industry body in Australia for the METS sector. Austmine is a member driven association and provides growth opportunities and value to their members to help them achieve success.

🖱 www.austmine.com.au

Austrade

Austrade can provide advice, market intelligence and ongoing support (including financial) to Australian businesses looking to develop international markets. Austrade can also help put you in contact with potential overseas investors.

Austrade has a mining industry network of 35 staff in key international mining markets and Australia including the Americas, Pacific, South East Asia, North Asia, India, Africa, Russia and the Middle East.

🖱 www.austrade.gov.au

Export Finance Australia

Provides loans and guarantees to Australian businesses in the METS export supply chain when their bank may be unable to help.

🖱 www.exportfinance.gov.au

There are lots of different things to consider when it comes to growing your export supply chain business. Winning an export-related contract is one thing – getting your business ready, establishing the right networks and understanding the potential risks is another.

Working closely with experts will help you set your business up for success.

If you would like further information or to have a discussion about funding solutions for your export-related business growth, please call Export Finance Australia on 1800 093 724 or send us an enquiry via our website and we will come back to you soon.



Australian Government



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