University of Exeter

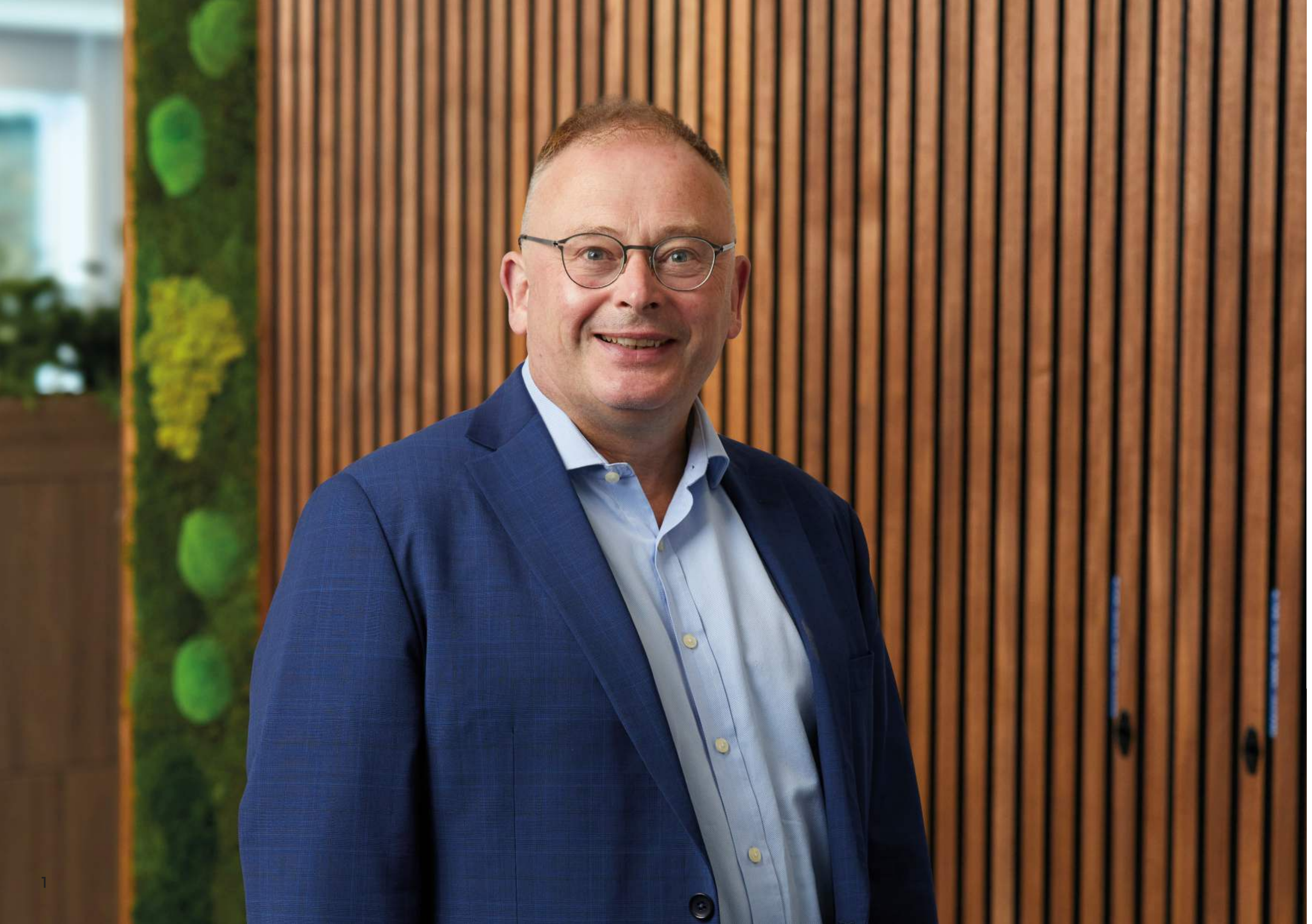
Exeter Defence, Security and Resilience

The Next Line of Defence:

Unlocking SME Potential in UK Defence from Policy to Practice

January 2026

Babcock



Foreword

I am pleased to introduce the findings of a vital collaboration between Babcock and the University of Exeter. Small and Medium-sized Enterprises (SMEs) are the lifeblood of British industry, accounting for over 99% of UK employers and over 60% of employees. British SMEs bring innovation, creativity, agility and specialist capabilities to every sector of the economy, not least national security. SMEs are creating new standards in areas like autonomy, digital interoperability, lightweight materials and cyber. But too often, their potential remains under-leveraged in defence. This report seeks to change that by offering a clear-eyed view of the challenges SMEs face, and by proposing practical solutions that can unlock the value they offer.

We have a limited window of opportunity to shift the dial. With the 2025 Strategic Defence Review (SDR) and the recent Defence Industrial Strategy (DIS), the current policy environment shows both a need and an eagerness for change. But in the context of the defence sector's rapid pace of change, we have to act quickly, translating research-informed recommendations into practical actions that benefit SMEs and strengthen UK defence innovation.

This report demonstrates a collaborative spirit and commitment to support smaller businesses. But that support needs to go further – especially for new entrants daunted by the sector's scale and complexity. It must also extend to those already engaged in defence who face persistent hurdles in growing their contribution, and to those with untapped potential who need help identifying the right entry.

Key recommendations advocate for more risk-proportionate contracting, adapting requirements to SME scale and enabling faster entry without lowering standards. The report also calls for a cultural shift in collaboration, recasting Primes as enablers and investors in SME innovation, not just intermediaries. There is an evident need for patient finance and private capital, mobilising venture and co-investment alongside government funds to close the innovation "valley of death." Ultimately, this commitment must secure British defence supply-chains, ensuring steady-state readiness in an increased threat environment.

The time for action is now. We must foster deeper collaboration and create a less complex, more inclusive environment for SMEs. This is not just about improving procurement or streamlining processes, it is about reshaping the culture of defence engagement to be more open, responsive, and future-focused.

I encourage everyone to treat this report as a springboard for change. Let's now work together to build a defence supply chain that is not only robust and secure, but also dynamic, diverse, and driven by the full potential of UK industrial capability.

David Lockwood OBE
CEO of Babcock International Group

Babcock

Introduction

SDR 2025 responds to a 'new era of threat' and demands readiness

SMEs and the new political economy of defence

The University of Exeter have been commissioned by Babcock to carry out a fast-paced applied research project to identify ways to dismantle the barriers preventing agile SMEs from contributing their innovative potential to UK defence.

The Ukrainian experience demonstrates the cutting edge offered by the agility, innovation and expertise that SMEs bring, and the importance of rapid pace in the procurement of novel technologies. SMEs are not only central to the UK's ambition of becoming a leading, technology-enabled defence power by 2035 bringing agility, innovation and specialist expertise, but are central to the ambitions of our allies as well, particularly in Australia via AUKUS, Canada via closer UK-Canada defence collaboration, and our EU and NATO allies as states seek to re-industrialise and rearm.

This is because of a number of widely-recognised attributes. SMEs deliver niche technologies faster and more flexibly than Primes, and they are essential to building sovereign resilience in areas like AI, cyber and autonomy. However, current barriers prevent full integration into supply chains, meaning that unlocking SME potential is both a security and economic imperative.

The 2025 Strategic Defence Review (SDR) and related policies aim to shift from centralised procurement to a more plural, agile model that is more accountable to the end user and responsive to evolving needs. Initiatives such as UK Defence Innovation, the Defence Innovation Fund, and the National Armaments Directorate will act to consolidate and overhaul defence innovation across the MoD.

This is part of a broader strategy that sees defence innovation as both a security and economic imperative, with SMEs crucial to how defence re-industrialisation will produce good jobs and growth across the UK. This has been crystallised in the recent Defence Industrial Strategy (DIS).

The 2025 Strategic Defence Review and Defence Industrial Strategy together define intent and delivery mechanisms.

- **SDR 2025 responds to a 'new era of threat' and demands readiness.**
- **Calls for procurement reform and innovation at wartime pace.**
- **Positions SMEs as critical to resilience and sovereign capability.**
- **DIS 2025 commits to 2.6% GDP defence spending by 2027 (aim: 3%).**
- **Establishes a National Armaments Director and reforms defence procurement.**
- **Launches SME Action Plan and Defence Office for Small Business Growth.**
- **Increases SME spending by 50% - or £2.5bn - by 2028.**

However, SMEs are currently recipients of only ~4% of defence expenditure. This not only limits UK defence capability but also hinders the dividend of increased defence investment being felt through local jobs and growth. The government's Small Business Plan - Backing Your Business - commits to unlocking SME finance (Start Up Loans, BBB/ ENABLE and early-stage equity, investor upskilling), future-proofing skills (short technical courses; apprenticeship reform) and opening opportunities (SME procurement education, a Defence SME Support Centre).

Taken with the Procurement Act 2023, this provides a context for measures such as a duty to enable SME participation, 30-day payment terms down supply chains, a central platform and earlier visibility. In defence, this complements the £400m UK Defence Innovation facility and segmented acquisition, together erecting the scaffolding needed to operationalise some of the recommendations gathered below, from fair payment and unified portals, to demand signalling in defence and faster test-to-contract trajectories.

Our research gathers insight into the practical steps required to deliver the commitments outlined across these various government documents. To understand what is required to translate ambition into reality, we have completed interviews with 20 UK SMEs delivering cutting-edge technological innovation into defence supply chains. The organisations interviewed span a diverse range of specialisations within the defence ecosystem: from advanced electronics, secure communications and electronic warfare capabilities to AI, data analytics and software engineering; from robotics, autonomous systems and unmanned vehicles to materials science and mechanical engineering; and from cybersecurity and secure infrastructure to consultancies and hubs facilitating collaboration and transfer across the defence and security landscape.

Our interviews reveal common challenges in navigating procurement, engaging with Prime contractors, and scaling innovation. This evidence of the opportunities and barriers SMEs perceive has been reinforced through policy analysis and a review of the academic and grey literature. The study highlights a mismatch between the agility of SMEs and the current supporting structures of the defence ecosystem.

In some cases, the barriers our interviews have identified are being addressed by the changing policy environment. For example, the SDR already outlines some promising reforms to be taken forward by initiatives like the UKDI and the NAD; these have been consolidated in the Defence Industrial Strategy.

However, there is still a need for a collective effort across industry and government to translate the promise of policy into practice and properly integrate SMEs into UK defence supply chains.

The interviews and broader study suggest a set of recommendations to turn policy (e.g. the SDR, Defence Industrial Strategy) into practice for SMEs on these fronts.

We present these recommendations under three central aims:

1. Awareness
What is already provided for in policy, but SMEs may not be aware of.

2. Action
What is already in place in terms of policy, but isn't necessarily working.

3. Attention
Emerging and under-recognised issues that there is a need to get on the policy radar.

Aided by government initiatives such as the Small Business Plan and the Procurement Act, unlocking SME potential is essential to accelerating technological advancement, strengthening national security, and building a resilient industrial base. In an era where deterrence and competitiveness are defined by connectivity and cognitive edge, distributing innovative capacity across the whole of the economy and society is no longer optional - it is vital.

This report seeks to understand the barriers faced by those SMEs that are accelerating technological advancement and strengthening national security at a time where battlefield advantage and deterrence are defined by the digital cutting-edge, alongside more conventional military means – and develop solutions.

In speaking to three distinct audiences – Primes, SMEs and government - the project's purpose and unique contribution is not just descriptive but strategic: showing what it takes to effect defence industrial strategy in practice by dismantling barriers, operationalizing policy, and developing thought leadership for collaborative partnerships. In particular, this report provides evidence-based insights for industry and government stakeholders, highlighting critical challenges and offering actionable recommendations to support policy development and implementation.

There is a need to act swiftly, given the limited window of opportunity, on the basis of actionable recommendations aligned with existing priorities and objectives on all sides of the national effort to rearm the country.

With these actions increasingly pressing, timing is critical if we are to capitalize on the current momentum stimulated by the forward-thinking policy environment.

Foregrounding existing barriers, emerging opportunities, and practical recommendations for improving SME engagement in UK defence, the interviews explored themes such as pace of change, technologies, skills, place, policy, bureaucracy, long term commitment, and the role of Primes. Interviewees expressed shared common experiences of navigating defence procurement, engaging with Prime contractors, and scaling innovation in an environment shaped by complexity, caution, and contradiction. What emerges is a portrait of a sector where ambition and inertia coexist, and where the promise of agile innovation is too often stifled by structural drag.

The interviews confirm that SMEs are eager to contribute to national security and technological advantage, but face persistent structural, cultural, and financial barriers that limit their ability to scale, access contracts, and collaborate effectively with Primes and the Ministry of Defence. This calls for a collective effort to realise the path forward charted in the SDR and other recent government policy initiatives, in which Primes will play the role of a partner through the power they have to convene and build capacity by enabling consortia, mentoring SMEs, supporting regional clusters and more.

SMEs are increasingly cast as the vanguard of innovation in a defence landscape undergoing profound transformation. The 2025 Strategic Defence Review (SDR) positions SMEs not as peripheral players but as pivotal agents in the UK's ambition to become a leading technology-enabled defence power by 2035. In a world where dual-use technologies, autonomous systems and artificial intelligence are reshaping the character of conflict, the State has come to recognise that driving innovation means unleashing the restless dynamism of the private sector, with the role of government being to enable and de-risk the necessary investment.

This pivot reflects a broader reorientation of defence strategy toward a more plural, decentralised model of innovation and procurement. It aligns with the Modern Industrial Strategy's emphasis on frontier sectors such as autonomy, quantum, and AI, and signals a growing recognition that the most transformative capabilities increasingly emerge from SMEs.

Yet this rhetoric is not necessarily matched by material commitment as it currently stands. Some estimates suggest that SMEs currently account for a mere 4% of defence expenditure. The SDR and its associated policy architecture seek to redress this imbalance through segmented procurement pathways, regional innovation clusters, and the establishment of UK Defence Innovation - a new institutional vehicle backed by £400 million to accelerate private sector technology adoption in military applications.

This is not merely a matter of defence policy - it is one of industrial strategy. The government's emphasis on regional innovation clusters, from marine autonomy in Plymouth to cyber in Manchester, reflects a place-based approach to national resilience. Defence innovation is increasingly framed not only as a matter of security, but as a driver of economic renewal, sovereign capability development and industrial devolution, with emerging technologies projected to account for half of the UK's future GDP growth.

The Defence Industrial Strategy envisages private finance being crowded in through a Defence Finance and Investment Strategy (expected early 2026) and supported by a new Defence Investors' Advisory Group (containing venture capital, private equity investors and other key financial services industry stakeholders). There will be a focus on pairing this development with the government's commitment to Net Zero 2050 through the financing of dual-use technologies.

It is anticipated that the National Wealth Fund will be harnessed to invest in these dual-use technologies. Following legislation, the National Wealth Fund investment scope will expand to capital-intensive projects, business or assets to ensure it can support the eight sectoral commitments within the modern Industrial Strategy.

The British Business Bank Industrial Strategy Growth Capital will support investment and growth across the eight growth-driving sectors at the heart of the modern Industrial Strategy through a provision of £4 billion in investment. The British Business Bank will also introduce tailored market approaches and offer large equity investments of £40-60 million to strategically important, capital-intensive businesses.

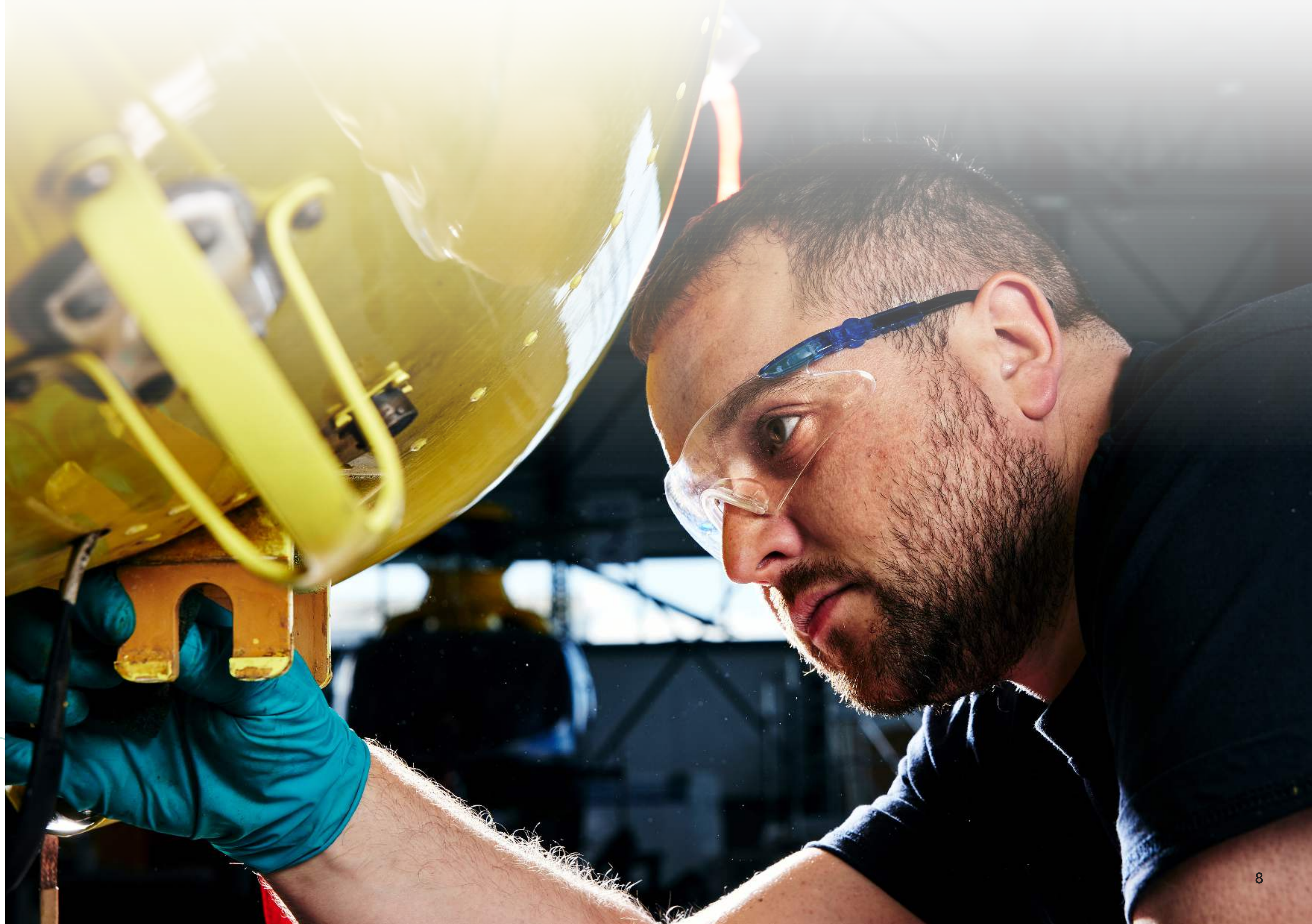
The Defence Industrial Strategy commits to "slashing red tape" and improving relations with SMEs through streamlined processes and better engagement mechanisms with the Ministry of Defence and promises a programme to transform the Test and Evaluation enterprise. The latter will include targeted regulatory review sprints to identify improvements at pace, reducing administrative costs and accelerating capability delivery.

Through the new Defence Office for Small Business Growth the government aims to help SMEs access opportunities through equality of information and market engagement, improved advice on export matters, and support SMEs to gain access to finance and growth capital. The latter is supported by a wider programme to support SMEs across all sectors in terms of improved access to start-up loans, and early-stage equity finance through the British Business Bank. The SME plan also recognises that the defence market presents unique challenges for SMEs by introducing a new Defence Support Centre with the aim of simplifying access to the sector.

The government also aims to increase the skills pipeline into the sector by establishing a campaign to de-stigmatise defence careers; create a series of Defence Technical Colleges within the existing Further Education system; establish strategic relationships with Higher Education providers; and a partnership with Skills England to understand the skills need across the country and to develop training products fit for the defence sector.

This policy context provides a huge opportunity for the sector. The presentation of the interview data that follows allows us to ask the question of how this policy can be turned into practice.

Professor Harry Pitts
Deputy Director of the Centre for the Public Understanding of Defence & Security



1. Beyond bureaucracy: simplifying procurement

SMEs consistently described procurement as the single greatest barrier. The process is complex, slow, and designed around Primes, leaving SMEs overwhelmed and excluded.

As noted in documents like the SDR, defence procurement is obstructed by bureaucratic and procedural barriers. For instance, contracts are often standardised in ways that fail to distinguish between Tier 1 Primes and lower-tier suppliers, imposing disproportionate compliance burdens on SMEs with proven track records. It is widely remarked that the language of procurement - dense with defence-specific jargon - acts as a further barrier to entry, alienating non-traditional suppliers looking to pivot to defence opportunities from a current focus on civilian products.

“Organisations are tying themselves up in process. Some are better for taking risk. But other companies won’t proceed without a purchase order. Our company can deliver faster than the system can cope with.”
Interviewee

Government is seen by interviewees as being held back by outdated structures which limit the capacity to pursue an up-to-date sense of what defence means in the twenty-first century and what they need to do to support it. The MoD’s procurement culture is described in documents like the SDR as risk-averse and process-bound. The SDR calls for a “revolution” in process design, drawing lessons from the UK’s support to Ukraine via innovative initiatives like Taskforce Kindred which broke through normal bureaucratic practice to quickly procure and deploy cutting-edge tech onto the frontline against Russia. However, our interviews found that cultural adaptation within the MoD remains slow and uneven.

“Ukraine has made the government think about procurement – to make procurement faster. Ukraine has shown that procurement can be sped up as well as the need for this. These efforts seem to be having an impact on how the government buys capabilities.”
Interviewee

The absence of iterative development models - such as spiral development – has further limited responsiveness and innovation. Bids often require proof that a solution has been used elsewhere, which excludes novel tech by design. This systemic contradiction could be solved through spiral/iterative procurement such as that witnessed in action in the Ukrainian case. A related issue that interviewees identified was the lack of specialist expertise in the MoD, because of the organisational principle whereby staff rotate ‘seats’ every couple of years leaving behind the expertise and knowledge they have established.

The procurement process, as experienced by the SMEs interviewed in the research, is less a gateway than a gauntlet. Interviewees described a bureaucratic ‘cultural gap’: a defence procurement system that is slow, opaque, and fundamentally misaligned with the tempo and scale of SME operations. Contracts see months of internal MoD discussion before SMEs are given just weeks to respond.

The proliferation of frameworks and portals at different tiers of procurement - each with its own registration, compliance and administration demands - has created an architecture of access, leading some firms to employ full-time staff simply to navigate the administrative terrain and to predict and forecast likely contracting opportunities. Financial thresholds present a significant barrier to SME participation in opportunities, with companies having to be over a certain size in order to bid, especially on the larger contracts that represent crucial opportunities for SMEs to grow and scale.

> “Three weeks to respond after 18 months of private dialogue - small teams can’t keep up.”
>
> Interviewee

Contractual terms are often disproportionate to the size and scope of the work and the on-the-ground realities of SMEs. Requirements designed for large Primes - such as excessive liability clauses or submarine-level standards for drones - are applied universally. The cultural DNA of defence remains deeply risk-averse, with commercial-grade technologies subjected to military-grade scrutiny on the basis of the worst-case scenario. There is a preference for “perfect solutions” over 95% commercial or effective solutions. This creates a difficult environment for SMEs offering practical solutions that could be iterated in theatre. Such risk aversion entrenches unequal treatment, with SMEs frequently carrying heavier compliance burdens than larger actors.

Such over-specification was seen by our interviewees as not only deterring participation but actively suppressing innovation, representing a fundamental misalignment between the nimbleness of SME innovation and the rigidity of procurement orthodoxy. Layers of contract governance and project management were seen as overly bureaucratic and cautious, squeezing the budgets for the technical work that SME partners bring, whilst also slowing innovation.

Interviews described a persistent expectation that their software/IP is acquired rather than being licensed, which creates frictions. In terms of the current support made available to help navigate such frictions for SMEs looking to pivot to or deepen their integration with defence opportunities, the defence SME hub available online is described as “just a website and load of links” and is simply seen as “lip service” to the notion of greater inclusion.

However, SMEs themselves also have a role to play in setting the conditions through which procurement processes are more or less successful. MoD staff are described as currently facing “an absolute tidal wave of SMEs who are promising the Earth,” which makes it difficult for those involved to identify quality solutions. This overload contributes to slow adoption even when the value is clear, and means that there are actions for SMEs themselves in improving the way procurement works by engaging with processes differently.

> “I spent more time logging into portals than building capability.”
>
> Interviewee

ACTION

The research identifies the following solutions to these challenges:

RE-IMAGINE PROCUREMENT

If SMEs are to play a meaningful role in the reconstitution of the UK's defence industrial base, procurement must be re-imagined not as a gate-keeping function but as a platform for participation – with Primes taking a central part as enabling partners in this transformation. It is widely recognised that initiatives such as the Defence and Security Accelerator (DASA) and innovation challenge platforms offer lower-friction pathways into the defence ecosystem. These mechanisms allow SMEs to showcase capabilities without navigating the full procurement gauntlet. Their long-term impact depends on integration into the core acquisition pipeline.

"It shouldn't be about dotting every I and crossing every T – it should be about rewarding people who are creative and innovative rather than rewarding avoidance of risk which is classic civil service, where if you do the bare minimum without screwing up you will go up. Whereas in the private sector you might screw up 50% of the time but as long as the other 50% is great that is enough. There is a need for culture change from the one to the other."
Interviewee

ADOPT RISK-PROPORTIONATE CONTRACTING FRAMEWORKS

Many SMEs we spoke to advocate for risk-proportionate contracting – where requirements are scaled to the size, scope and complexity of the project.

This is seen as offering a way to align innovation with institutional reality. Interviewees called for a shift toward systems engineering approaches and spiral development models that allow for prototyping, testing, and refinement in real time. To address the frictions that emerge around acquisitions of software and IP, interviewees felt there is a need for license-friendly commercial templates and support for spiral updates.

Spiral development models, drawing on the improvisational urgency of Ukraine's battlefield innovation, allow for iterative prototyping and rapid deployment, rather than the 'glacial pace' at which the process tends to move in the UK. One option would be to adopt more staggered, milestone-based contracting, enabling SMEs to demonstrate capability incrementally. It was felt that the establishment could learn lessons from the experimental approach taken in Taskforce Kindred, for example. Future Capabilities Innovation investment was identified by one interviewee as an area of MoD procurement and support where new ways of working on spiral or iterative principles can be elaborated on in practice.

BUILD TECHNICAL INTIMACY WITHIN PROCUREMENT

The ability to innovate and experiment with relevant and identifiable products rests on a degree of "technical intimacy" that is sometimes lacking in procurement channels, meaning that the technology is out there but is not being located and exploited fully. The UK should emulate other countries and avoid a constant rotation of functions within the MoD by retaining those with disciplinary and technological expertise in post. This means that central procurement will be equipped with a greater degree of technical intimacy able to identify and understand relevant cutting-edge innovations, including those currently in civilian usage – developing what was described by one interviewee as "PhD level understanding rather than kindergarten".

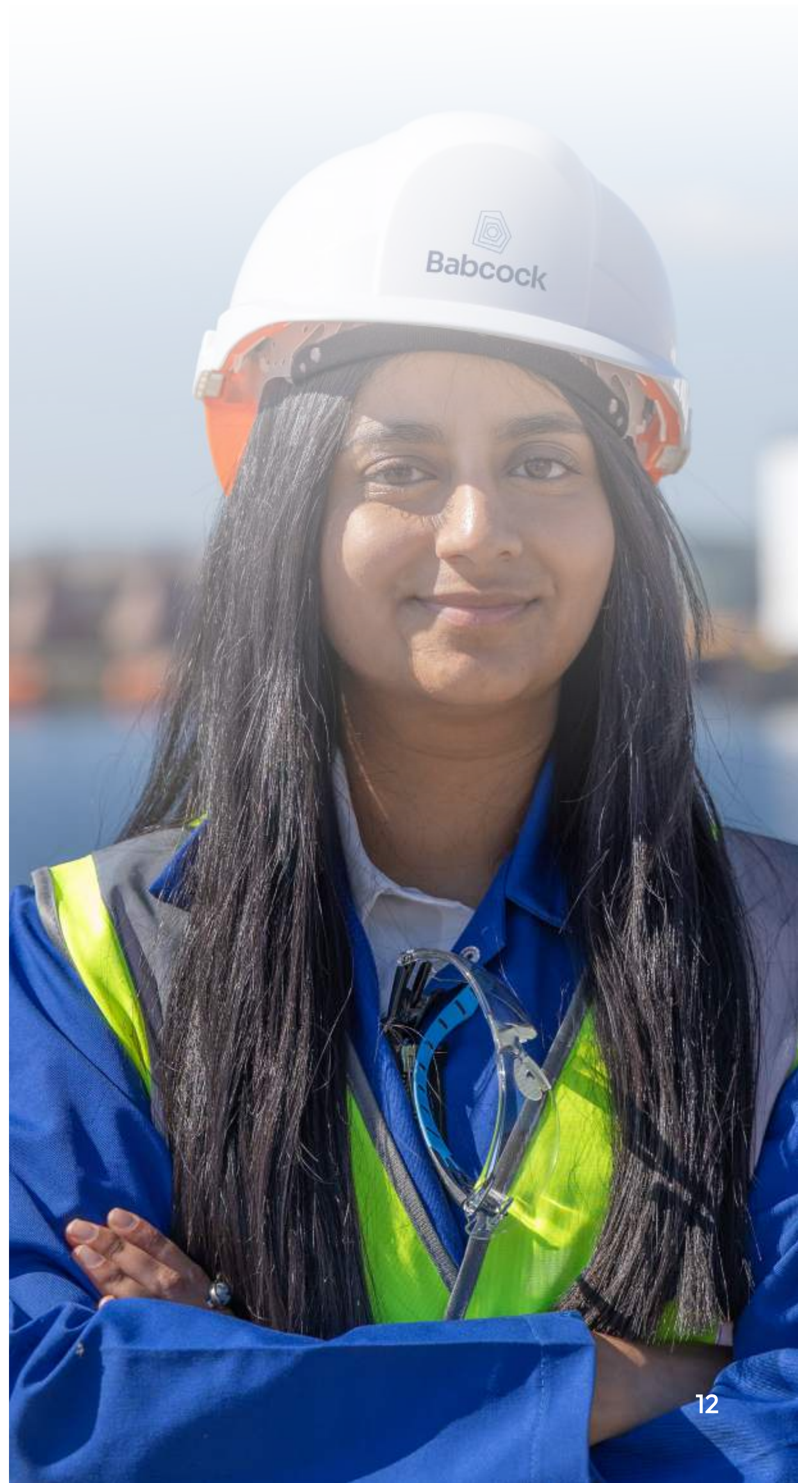
STREAMLINE PROCESSES THROUGH SIMPLIFICATION AND CONSOLIDATION

Simplification is seen as key to reducing entry barriers. The rationalisation of defence conditions, the standardisation of frameworks, and the consolidation of registration portals and certification updates into a single, unified system would streamline access and reduce the administrative burden on SMEs. Simplification could include a pan-government/Prime single portal that automatically registers and records certification of standards (e.g., CyberEssentials) to mitigate the need for SMEs to maintain dedicated admin roles just for portal management.

PROVIDE EARLIER AND CLEARER DEMAND SIGNALS

Minimum notice periods of upcoming tenders and opportunities as well as earlier visibility of MoD needs – through challenge-led procurement and transparent demand signalling – would help SMEs prepare and invest. Another necessary step is to ease financial thresholds for participation in bids to reduce the barriers to innovative, cutting-edge SMEs contributing to opportunities. But more than this, what is needed is a cultural shift: from compliance to collaboration, and from opacity to openness.

> "Taskforce Kindred represents a method for bypassing bureaucracy and getting kit to the Ukrainian frontline… There are flaws, mistakes are made, but Kindred runs in the same way a scale up would, whereas the morass of the MoD runs in the same old way – at a glacial pace."



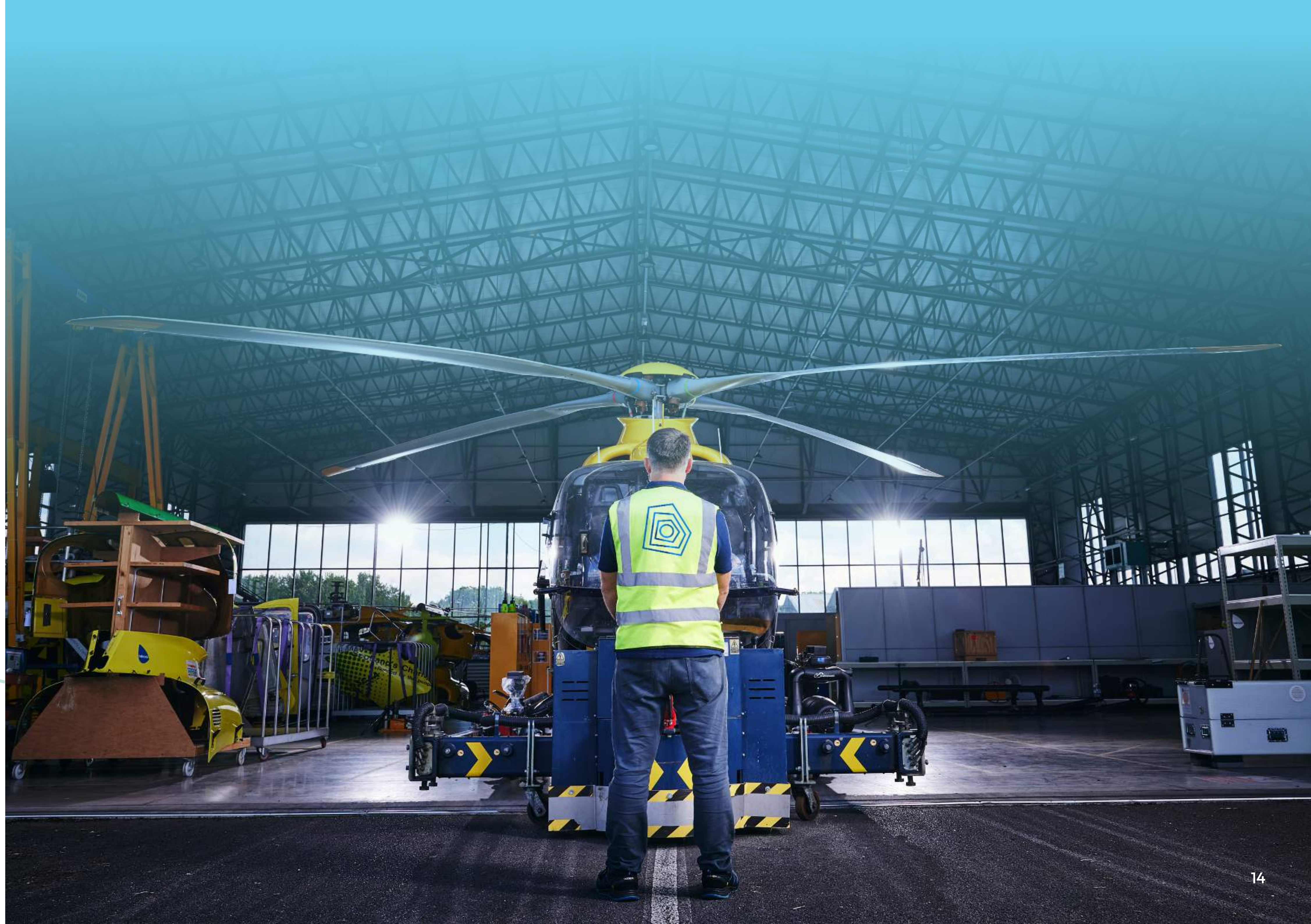
ATTENTION

DRIVE CULTURAL CHANGE FROM COMPLIANCE TO COLLABORATION

Central to this will be how Primes and government work together to encourage and enable SMEs, including incentivising the inclusion of SMEs in how tenders and opportunities are structured. The government's Small Business Plan paves the way for a defence-focused SME support centre providing a single front door for start ups and scale ups operating in what are fundamentally unique markets and supply chains, supported by the SME Procurement Education Programme.

INCENTIVISE PRIMES TO ACT AS ENABLING PARTNERS

A related measure to overcome some of the barriers outlined above would be to institutionalise and formalise mentorship from experienced suppliers, technical accelerators, and intermediary organisations, all of which are identified as helping SMEs navigate the labyrinth of defence procurement. Early-stage pilot testing, commercial readiness support, and access to shared infrastructure are all recognised as critical enablers. Proportional contracting frameworks, transparent demand forecasting, and targeted talent development are likewise seen as essential to building a more resilient and inclusive SME ecosystem.



2. RECASTING PRIMES: FROM GATEKEEPERS TO PARTNERS

The government agenda shows a desire for more partnering between Primes and SMEs, which is seen as a welcome development but is not without its challenges and complexities for both sides of the relationship that will take time, and the building of trust, to solve.

Primes occupy the paradoxical position of being both conduits and, sometimes, chokepoints. Their tendency towards internal silos, staff churn, and sometimes sluggish sourcing processes are felt to create discontinuities that frustrate SME engagement. Innovation needs are rarely articulated clearly, and what has been described as an "everything through Primes" model entrenches a hierarchy that inhibits collaboration and scale.

The awarding process for a sizeable proportion of work that goes to major Primes is essentially non-competitive in nature. This state of affairs, which some of our interviewees likened to a 'nationalised industry' or 'privatised oligopoly', creates little commercial incentive to take the bold new approach to working with SMEs that the moment demands. The result is a system that privileges risk reduction over innovation, and consensus over agility. SMEs are often left navigating a landscape in which access is mediated by opaque processes and informal networks, rather than transparent criteria and structured engagement.

> "Nobody gets fired for giving a Prime a 5-year contract... but they may do for giving an SME the same."
>
> Interviewee

Primes tend to mediate the access of SMEs to MoD supply chains, but the perception is that this can sometimes result in SMEs being "held to a higher standard from a security and process point of view" than if the SME were to be transacting directly with government. Whilst this can discourage SMEs from seeking out relevant opportunities to partner with Primes, it is important to acknowledge the nuance that at least one SME we spoke with is contracting directly with MOD and avoiding Prime-led frictions.

Most of the SMEs we spoke to must pass through Primes in some way in order to reach the MoD, but they felt that the pathways for doing so can be informal, uneven, opaque and they often struggle to identify the right contacts within sprawling Primes. Supplier portals often offer little by way of information. Access is governed less by process than by proximity - described by one interviewee as akin to "a village pub," where relationships, not merit, determine entry.

This dynamic breeds distortion. Where Primes acquire, it is perceived by some we spoke with as being not to scale but to absorb or even stifle the threat posed by SME innovation and IP. This reflects a culture of competition rather than cooperation in capability development, whereby SMEs must convince Primes that their technology is complementary, not competitive, which can be a significant burden. Others, we heard, pass down burdensome defence conditions and insurance requirements, delegating disproportionate risk to small suppliers. While some Primes are improving engagement, many SMEs remain structurally at one remove from the end customer, with all the asymmetries of power and information that entails. Furthermore, legal power in contracting between Primes and SMEs can be asymmetric.

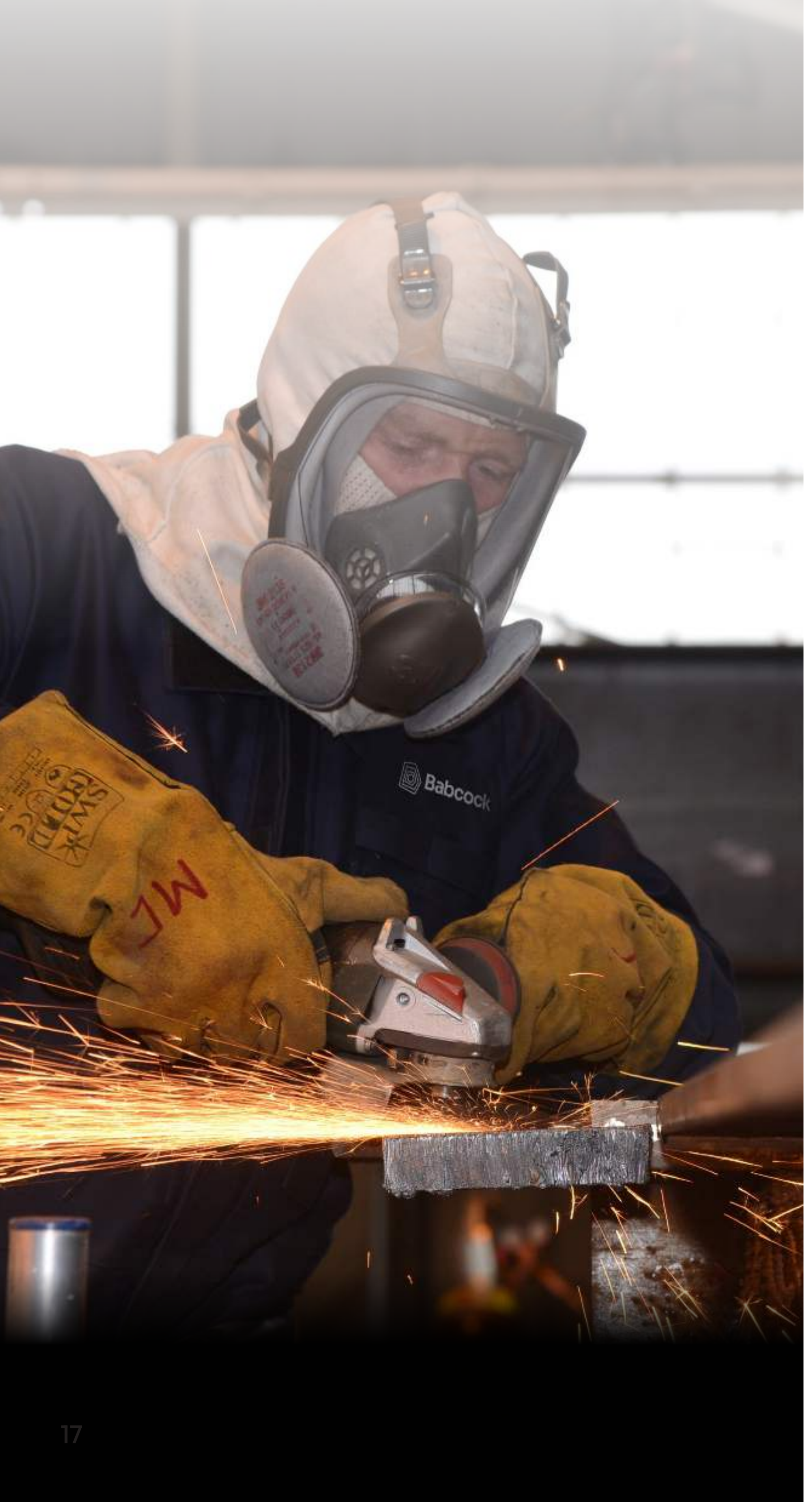
Whilst a Prime will have an entire legal department, an SME may have no in house legal expertise. This can lead to unbalanced contractual terms for SMEs which hampers their long-term potential.

Access to decision-making remains uneven and opaque. Many SMEs described a closed circuit of influence - a revolving door between the MoD and Primes, reinforced by informal networks and legacy relationships. While initiatives like BattleLab and regional clusters offer a partial remedy, engagement remains patchy and overly reliant on who you know, rather than what you can do.

The private sector has had much more success than government, as it stands, in generating the structures through which clustering occurs. Interviewees warn about Primes dominating or absorbing successful SMEs in regions, with clusters acting as a mechanism for them to do so, requiring careful governance and potential codes of conduct.

There is some suggestion from interviewees that MoD staff are overwhelmed by pitches from SMEs which requires better triage mechanisms or intermediation to isolate the most effective; it does not help that the MoD struggles to maintain staff with appropriate technical expertise in relevant domains. At the same time, some SMEs may already be solving problems the MoD does not yet realise exist. Primes, it might be suggested, represent a potentially indispensable partner through which the distance between SMEs and government can be bridged to the advantage of UK defence overall.

> "Primes too often simply pass down the conditions they have to sign up to their sub-contractors which can lead to ridiculous expectations of insurance and risk management for even quite small projects."
>
> Interviewee



> Primes should bring their larger marketing and customer liaison teams to bear and support SMEs who have good technology, giving SMEs credibility and market access without forcing IP transfer.

Interviewee

ACTION

The research identifies the following solutions to these challenges:

SHIFT PRIMES FROM GATEKEEPERS TO ENABLERS

SMEs we spoke to consistently called for more structured and strategic collaboration, suggesting that the role of Prime contractors must evolve from that of gatekeeper to that of enabler.

POSITION PRIMES AS CORNERSTONE INVESTORS

As an alternative to Primes hoarding access, joint bidding models and bundled contracts were seen as mechanisms to create economies of scale, stability, and shared risk for SMEs. Coherent programmes of work reduce volatility and support long-term planning. Through such an approach, Primes can also go beyond their role as intermediaries to serve as cornerstone investors, validating SME technologies, crowding in private capital through de-risking, building confidence for SMEs to scale, giving due diligence signals, and steering strategic alignment with government priorities.

SHARE CUSTOMER-FACING INFRASTRUCTURE AND MARKET ACCESS

One alternative to outsourcing or gatekeeping would be for Primes to share customer-facing infrastructure with SMEs without absorbing the latter. This could preserve SME independence whilst enabling market access and scaling impact through collaboration.

INSTITUTIONALISE MENTORSHIP AND SKILLS SUPPORT

Primes can upgrade the skills and capacities of SMEs by supporting and informing how they navigate and engage with established defence procurement structures – especially where SMEs are pivoting from a civilian focus. To this end, both Primes and government alike should employ people with SME backgrounds to bridge the cultural gaps which hamstring collaboration at present.

SCALE AND DEMOCRATISE ENGAGEMENT PLATFORMS

Structured engagement events – such as BattleLab and regional innovation clusters – were seen as promising but it was felt that these must be scaled, institutionalised, and made more inclusive. SMEs value face-to-face interaction and relationship-building, but access must be democratised, and not be dependent on insider networks or informal patronage. Trust and transparency are essential to the desire of the SMEs we interviewed to be treated not as transactional subcontractors but as strategic partners in a shared national endeavour.

INTRODUCE AN SME CHARTER AND CLUSTER GOVERNANCE

To play their part in the renewal needed, SMEs must ensure solutions address real needs, rather than simply promoting interesting technology for its own sake. SMEs must be clear about the added value they offer when taking propositions to government actors who are having to triage a deluge of sometimes speculative contacts. This is something that Primes can aid by supporting SMEs to engage with business development from a position of knowledge and confidence in what is often an opaque and unclear set of processes and customs.

Some of the suggested ways that these solutions could be brought together include an SME Charter presenting a code of conduct for Primes to sign committing them to integrating SMEs and the conditions on which they will do so (e.g. fair payment terms and offering support). Part of the remit of any codes of conduct would be cluster governance that protects SME independence (e.g., fair IP terms, balanced consortium rules). This overarching agreement could be twinned with an SME Clinic, providing tailored guidance on organisation, management, marketing, procurement and compliance. Such initiatives could attract, onboard and support new SMEs, demystify entry barriers, and showcase viability, enabling Primes to actively cultivate new industry entrants, promoting success stories.

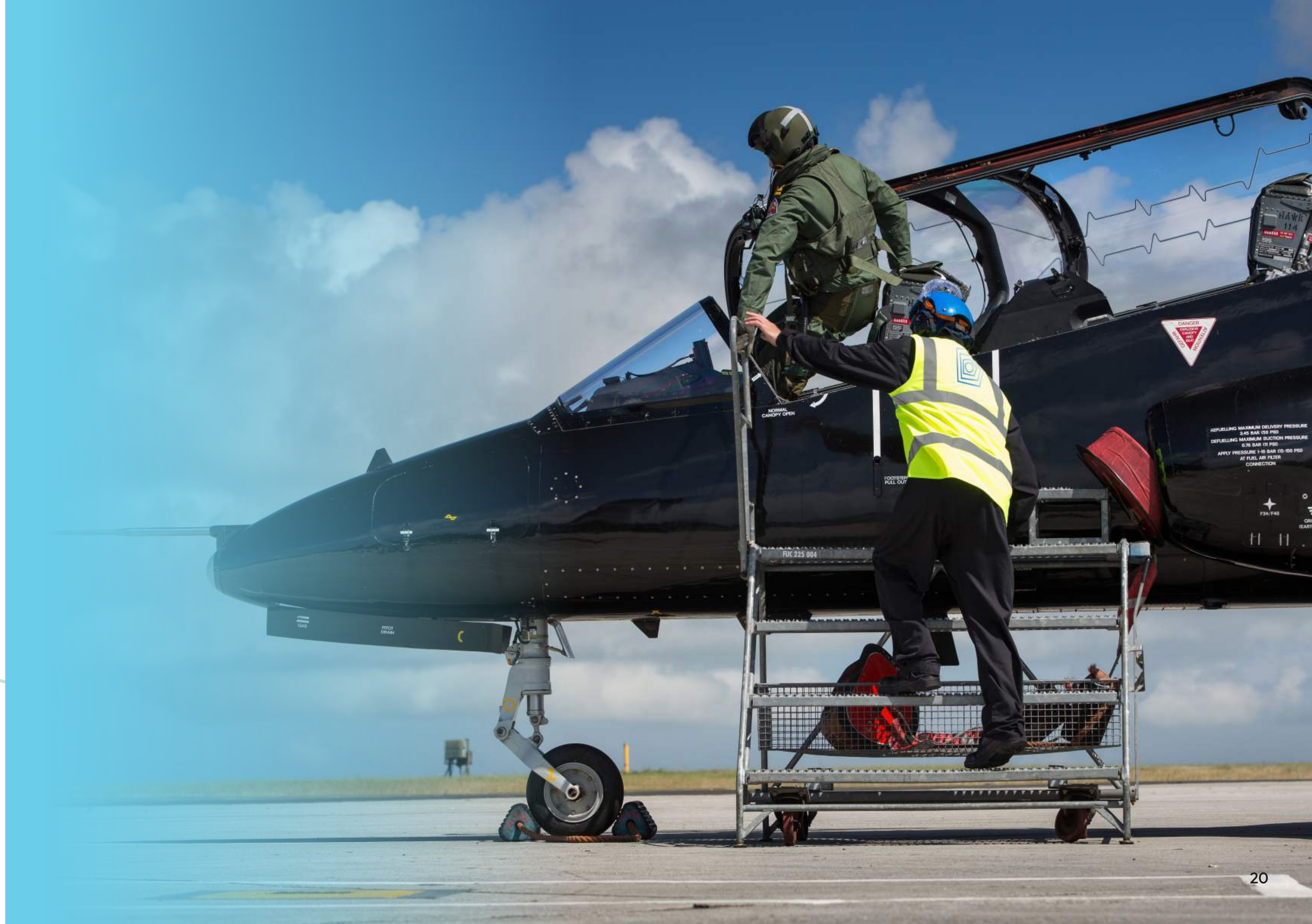
ATTENTION

CONSIDER A GOVERNMENT BROKER FUNCTION

Some interviewees called for a broker function to be implemented by government to intermediate between SMEs and Primes; this would partly be targeted at resolving the differential legal power and capacity available to each partner, which is sometimes perceived as resulting in SMEs taking worse terms than might otherwise be the case.

ENCOURAGE COLLABORATIVE CONSORTIA AND EARLY TRUST-BASED RELATIONSHIPS

More generally, the study highlights the importance of early, trust-based relationships between SMEs, Primes, and MoD stakeholders. Collaborative networks and consortia enable firms to pool capabilities, share risk, and position themselves for larger contracts. Consortia tendering, in particular, is seen as offering a route to parity - allowing SMEs to engage with Primes on more equal terms and avoid the asymmetries of traditional subcontracting.



3. STABILISING FUNDING: PATIENT FINANCE AND PRIVATE CAPITAL

Finance is crucial to innovation, and here too SMEs face systemic disadvantage as access to investment becomes a critical bottleneck.

SMEs require both seed capital and sustainable funding to scale, but it is widely recognised that the MoD's slow engagement and antiquated data systems hinder timely support and the results of new and improved initiatives like UKDI are not yet tangible to firms we spoke to. Late payments, inflexible financial instruments, and the absence of predictable demand signals create a volatile environment in which investment is difficult to justify, despite the importance of this to UK defence.

From our interviews we found that SMEs often rely on founders' savings, with traditional public funding routes paused or slowed due to political cycles or bureaucratic delays such as Treasury sign off on MoD spending. This epitomises the risk aversion that pervades the entire supply chain, with all spending above £50k requiring Treasury approval, "clogging the system" according to one interviewee. Moreover, the "valley of death" between R&D and commercialisation is acute; to comply with expectations and requirements, SMEs must invest in capabilities and systems before contracts materialise, often without the capital to comfortably do so.

> "Often contracts have a short timeframe, this can be a challenge for Primes but fatal for SMEs that are often surviving week by week."
>
> Interviewee

UK venture capital is perceived as both risk-averse and technically under informed, especially when compared to its US counterparts. This lack of technical expertise in UK venture capital is not just related to defence but stymies other sectors, such as MedTech, suggesting a wider challenge regarding the financing of technical development in the UK. Lacking operational experience, many investors struggle to assess deep tech propositions. Worse, we heard that private venture capitalists sometimes push dual-use technologies towards commercial applications and away from what is most relevant or important from the perspective of national security.

More broadly, security concerns mean that companies are not always able to share details of their track records to convince investors with. Primes rarely act as cornerstone investors, and banks have historically failed to appreciate the value or needs of defence clients, hamstrung by outdated ethical and moral imperatives that fail to match the necessity of national security as a generational social challenge.

While overseas funding may offer a lifeline, it raises ethical and strategic concerns in a sector so closely tied to national sovereignty. Initiatives like the National Security Strategic Investment Fund and UKDI offer promise but remain either unknown or underutilised and insufficiently integrated into the broader innovation ecosystem. Moreover, interviewees consistently fed back that, in an environment of mutual mistrust, government initiatives fail to shift perceptions within the SME supply chain without real incentives to crowd-in private finance – either through enriched public finance or through Primes 'putting their own skin in the game'.

While institutions such as the British Business Bank, UK Export Finance, and the National Wealth Fund also offer support in principle, the existing evidence shows that SMEs report difficulties accessing these resources in practice. The SDR's proposals – such as an investors' advisory group and regional support hubs – are promising, but their impact remains to be proven; it is in the nation's interest to realise this impact in tangible gains in investment and innovation, and Primes, SMEs and government must work together to deliver them.

> "There is a sense that the Treasury drives things from a cost efficiency basis which means that long term security is sacrificed for short term budgetary reasons."
>
> Interviewee

AWARENESS

ACTION

The research identifies the following solutions to these challenges:

EDUCATE AND INCENTIVISE INVESTORS

There needs to be a push to educate and enable investors and venture capitalists to align themselves to the needs of the nation's defence and security – something Primes could play a vital part in driving.

New institutions like a Defence Investors Advisory Group can play a key role in brokering this alignment, leveraging venture capital and private equity expertise to de-risk innovation and accelerate scale.

> "If you want innovation, there has to be a leap of faith."
>
> Interviewee

COMBINE PATIENT CAPITAL WITH STRATEGIC INTENT

It is important for all partners in industry and government to recognize that SMEs often operate on survival principles, rather than profit maximization. SMEs need work to survive, otherwise they will go elsewhere – to other places, and other sectors, weakening the contribution they can make to UK defence.

SMEs we spoke to felt that patient capital models, co-investment with curated venture capital partners, and direct MoD contracts and other support for pre-commercial innovative capabilities would help bridge the "valley of death" between R&D and deployment. Government-validated investor briefings under NDA could enable SMEs to attract investment on the basis of their track record in providing critical technologies in a defence procurement context.

"Long term security of contract is vital for stability and growth in the sector."
Interviewee

EXPAND AND INTEGRATE GOVERNMENT-BACKED INVESTMENT VEHICLES

A lack of finance holds back SME participation in defence re-industrialisation and interviewees called for a new model of investment - one that combines patient capital with strategic intent. Pending the realisation of the promise of UKDI in practice, other government-backed investment vehicles - such as the NSIF, the National Wealth Fund, and the British Business Bank - must be expanded, integrated, and made more accessible. Finance industries should be compelled to frame innovation for the purposes of national defence within an updated understanding of what represents ethical investment in the current time, with a focus on start ups and scale ups as beneficiaries.

The government's Small Business Plan has much to offer in this regard, promising expanded Start Up Loans, more capacity at the British Business Bank, and early-stage equity to support IP-intensive and deep tech firms; plus reforms to mobilise institutional capital and up-skill UK investors in science/tech due diligence. This should combine with existing forms of support well-matched to some of the barriers outlined above.
In particular, NSIF's approach was lauded by interviewees for pro-actively shopping technology within the MoD to identify interested customers before investing, which helped align market needs with startup capabilities and facilitated scaling opportunities.

ATTENTION

PROVIDE MULTI-YEAR CONTRACTS INSULATED FROM POLITICAL CYCLES

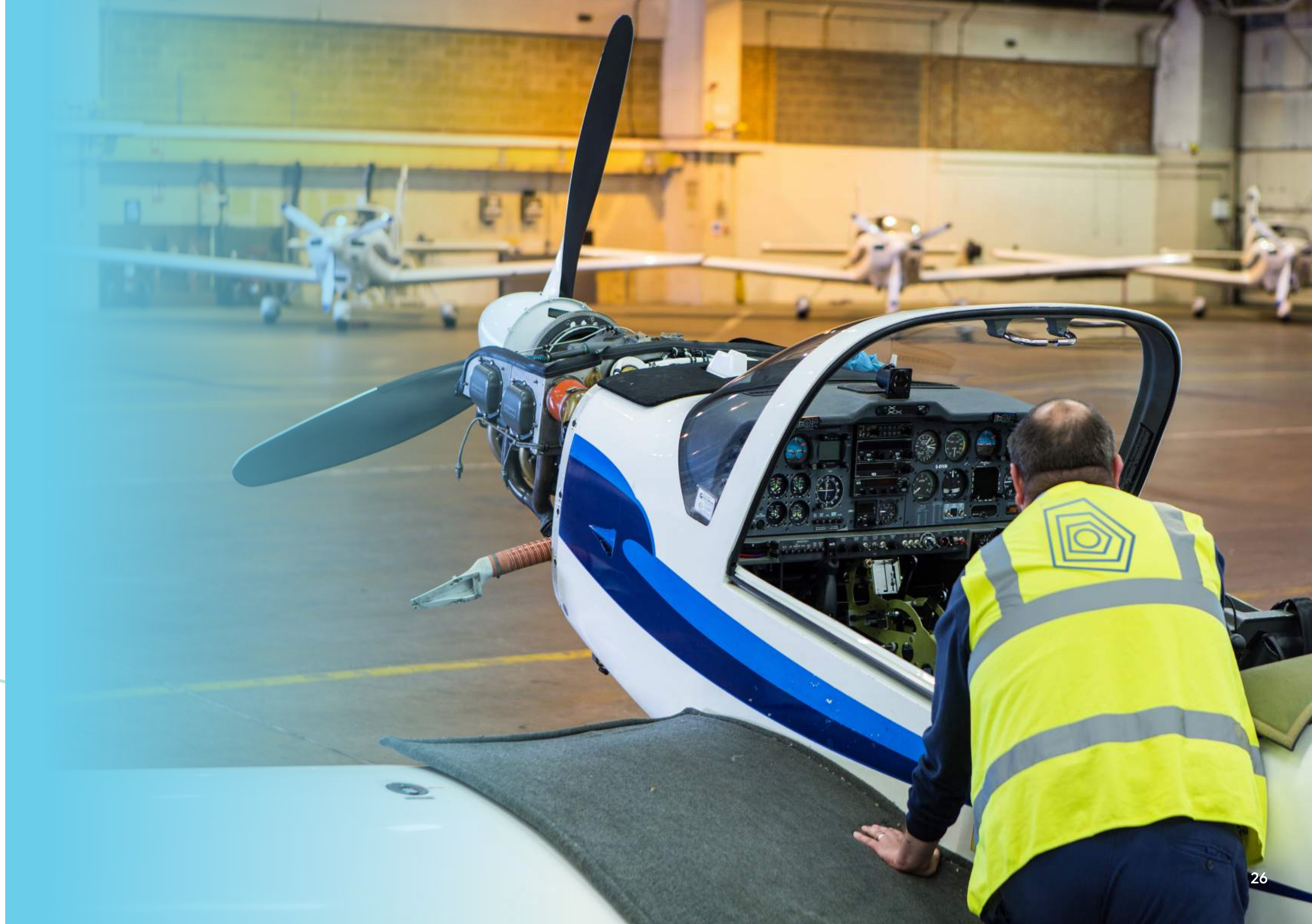
Crucially, funding must be insulated from the volatility of electoral cycles. SMEs need multi-year commitments and predictable pipelines if they are to invest in the people, processes and platforms that innovation demands.

INCENTIVISE PRIMES TO CO-INVEST AND VALIDATE SME TECHNOLOGIES

Primes, too, were seen as needing to put skin in the game as procurers and partners of SMEs- investing their own capital in promising start-ups and acting as strategic validators rather than passive intermediaries. Engagement from prime contractors is crucial for attracting private investment, as strategic involvement from primes signal technical and market due diligence to financial investors. A commitment to shorter payment terms and on-time payments would be another important part of Primes taking responsibility for supporting growth in SME capacity for UK defence.

DEVELOP FLEXIBLE FINANCIAL INSTRUMENTS

Flexible financial instruments - such as revenue-based financing and government-backed equity stakes – are also seen as vital to unlocking SME potential. Public investment should be used not as a substitute for private capital, but as a catalyst to crowd it in.



4. REFRAMING DEFENCE CAREERS: BUILDING A SKILLS PIPELINE

The war for talent is another front on which SMEs are disadvantaged. Recruiting and retaining skilled staff - particularly in high-demand areas like AI, advanced manufacturing, quantum science, and systems engineering, where they face competition from other sectors like digital - is a persistent struggle.

There is a tendency for retired senior leaders with backgrounds in the MoD to take work within the sector. These highly networked individuals are often too expensive for SMEs to employ and end up working with established Primes compounding what can appear as a closed loop and leaving SMEs out in the cold.

Some SMEs spoken with suggested that a skills pipeline is available but the cost of attracting those skills is prohibitive. SMEs need to have skilled staff in place in order to be in a position to bid for work but investment in staff can represent a speculative gambit if a bid does not succeed. Training is intensive and costly, especially where skills are needed at short notice; SMEs often require many months to bring new hires up to speed. Access to shared labour pools is limited, and contingent staff frequently lack the domain knowledge required for high-responsibility work.

> **"Lack of certainty and lead time on contracts poses the biggest challenge to recruiting... it would be wrong to issue them contracts because of uncertainties about incoming work."**
> Interviewee

Furthermore, a successful defence sector does not just involve tech innovation, but sales and business development. As such, firms require a team of diversely skilled staff to effectively pitch their ideas.

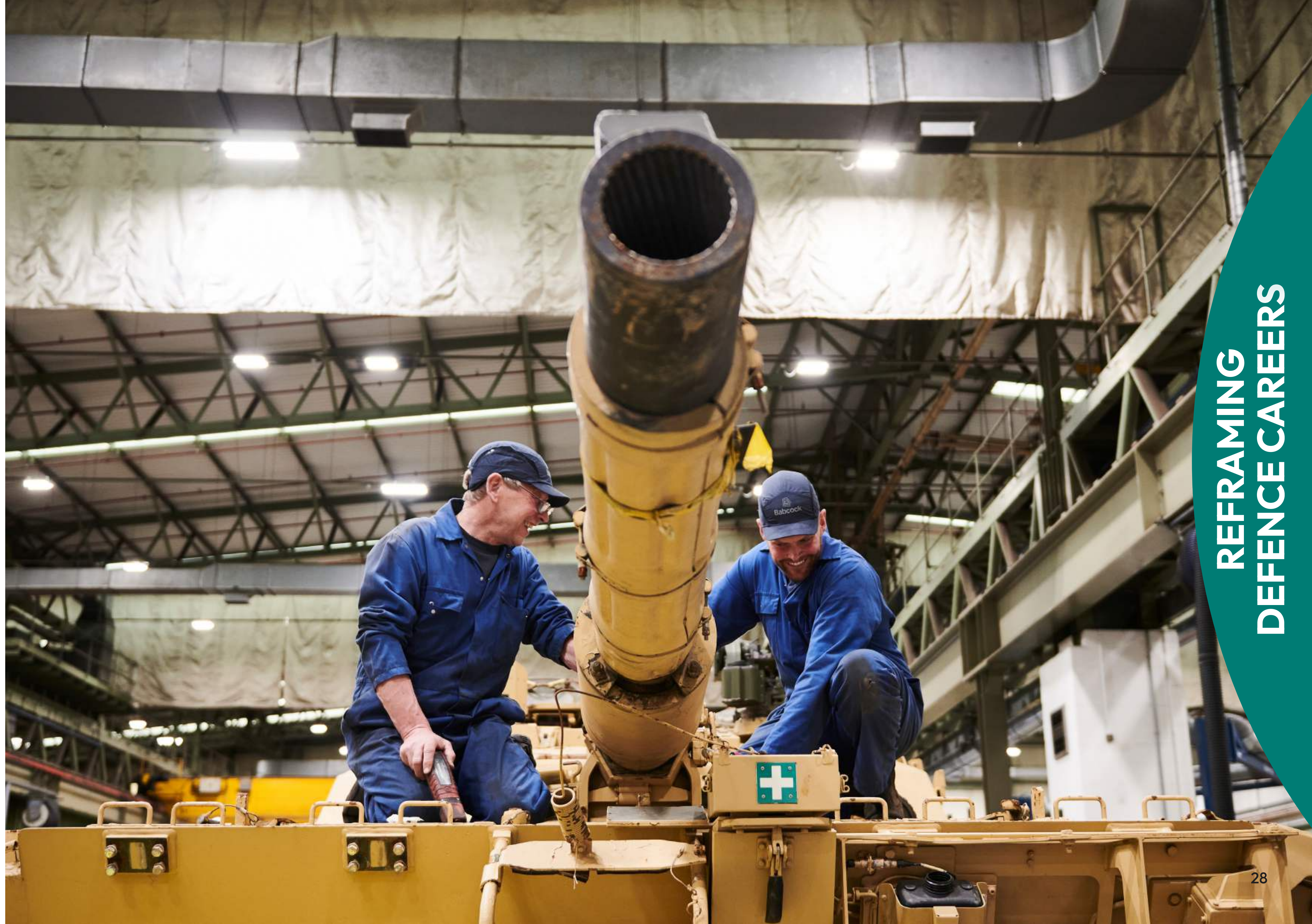
Upskilling SMEs to be able to more effectively network, market and sell their products may be a vital area where Primes can help build the capacity of their supply chains. A particular area where SMEs struggle and Primes can help is in terms of the staff input required just to keep on top of the cycle of tender and contract releases. Tenders often come during summer and winter holidays, we heard, and SMEs often lack the workforce depth to be able to keep up during these periods. Opportunities are therefore missed because of a lack of "consciousness that SMEs are lightly manned"; and the customer may miss out on precisely the cutting-edge innovation required to solve the problem put forward.

> "Talent is hard to find for Primes, even harder for SMEs."
> Interviewee

A wider cultural issue with the SME workforce is that defence careers suffer from stigma, particularly among younger workers and in universities, where in some cases defence firms are even barred from attending careers fairs. This stigma is compounded by the impression that these careers incur lower salaries, stringent security requirements, and the difficulties related to the episodic nature of procurement cycles. In a labour market defined by precarity and insecurity, lack of financial certainty for SMEs only compounds incentives to find work in other industries.

> **"Universities can be squeamish about defence, i.e. want to be involved in defence but not lethality. It's very difficult to get people interested in defence careers because of the stigma. This may be changing with the renewed focus on defence as a national issue but more needs to be done."**
> Interviewee

These issues with skills supply contribute to delays, cost overruns, and missed opportunities. Apprenticeship models offer a partial remedy, but they require long-term investment, commitment and institutional support. Some SMEs have responded by building local ecosystems to share talent and infrastructure, but wage competition from Primes and commercial tech firms offering a civilian spin on similar innovations remains fierce, and the absence of long-term contract certainty makes workforce planning a highly speculative endeavour, with major employers no longer using over-training as a means of providing skilled workers for their supply chains.



REFRAMING DEFENCE CAREERS

AWARENESS

The research identifies the following solutions to these challenges:

INCREASE DEFENCE SECTOR AWARENESS FOR SMES

A specific suggestion that emerged from our conversations was that former MoD and forces personnel could be encouraged or seconded into employment with SMEs. This could fulfil similar business development function as that for the large Primes.

ACTION

EXPAND APPRENTICESHIPS AND FLEXIBLE TRAINING MODELS

The government's Small Business Plan introduces reforms that can help in some of these regards, including increased skills funding, short employer-led courses in engineering/AI; and manager capability uplift for SME leaders. The promise of more flexible short course/apprenticeship provision could support EW, RF, systems engineering, and software roles, opening the possibility of piloting micro credentials co-badged by partners such as Defence Digital, DES or regional clusters, with further work to adapt degree apprenticeships for SME realities in the defence sector. SMEs, with the right support, will need to actively explore the evolving skills landscape to seek to grow their own talent.

"The military produces leaders out of public school who don't really understand technology. People are there because they are great leaders but there is a need to promote the technologically able."
Interviewee

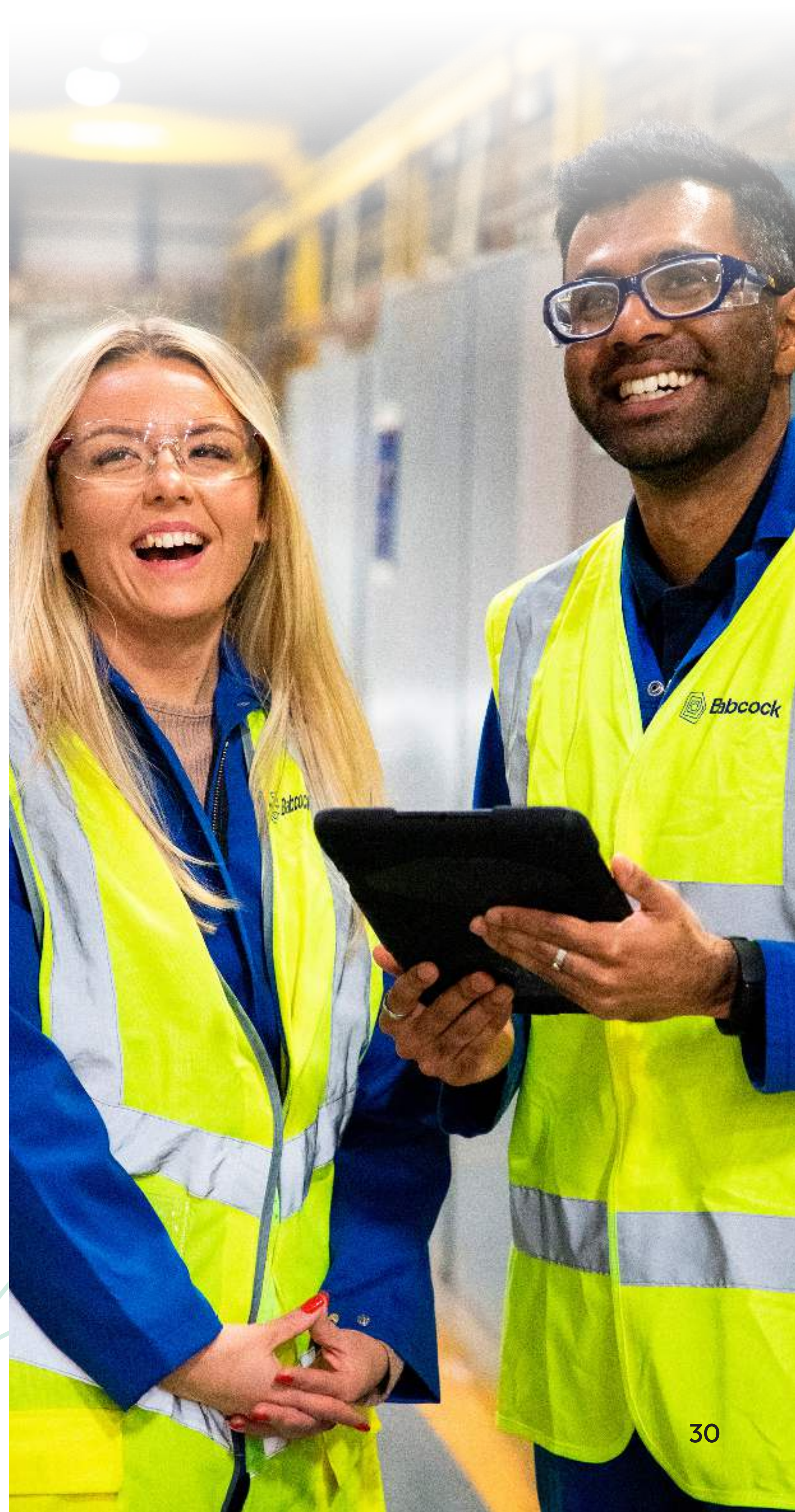
COORDINATE REGIONAL SKILLS INITIATIVES WITHIN A NATIONAL FRAMEWORK

Interviewees called for structured outreach to promote defence careers across the education pipeline. Promoting defence as a high-tech, purpose-driven career based on technological prowess and contribution to national security and economic renewal could help shift perceptions. Regional clusters can support local recruitment, but national coordination is needed to ensure consistency, scale and strategic alignment. We heard examples of SMEs working together to create ecosystems with similar companies, bringing employees together to share projects and establish increased scale. Most relevant to skills challenges, this enhanced collaboration saw workloads and labour input managed across different firms – something for SMEs to explore and expand further in their own sectors and localities.

ATTENTION

POSITION DEFENCE AS A HIGH-TECH, PURPOSE-DRIVEN CAREER

The skills challenge is not just a labour market issue - it is a strategic imperative. Addressing skills shortages by expanding apprenticeships, graduate schemes and defence-specific training programmes will be essential to building a workforce fit for the future. However, the impressive policy agenda through which the government is proposing to support a strong defence skills pipeline must be extended beyond Primes to include recognition of the specialist requirements of SMEs, too.



5. MODERNISING INFRASTRUCTURE: DIGITAL AND PHYSICAL SECURITY

It is widely observed that the MoD's digital infrastructure - particularly in areas like cloud computing - is outdated and fragmented.

This limits its capacity to collaborate effectively with innovative firms and undermines the very agility it seeks to harness. This architecture is a patchwork of siloed systems, with different branches running isolated systems each with its own onboarding and security protocols. For SMEs, this means repeating and navigating the same processes across different branches and gateways, delaying deployment, inflating costs and increasing frictions.

Testing environments - particularly for electronic warfare and autonomous systems - are scarce, poorly signposted, and often inaccessible to new entrants. Indeed, we heard that Ofcom constraints complicate EW testing to the extent that SMEs cannot legally and cheaply replicate the required conditions.

Data access is another barrier. SMEs developing networked systems or AI tools require operational feedback to iterate effectively. Yet security concerns and infrastructural limitations inhibit meaningful data sharing, slowing innovation and iteration and undermining the very agility SMEs are supposed to bring. Classification rules also prevent SMEs setting up secure remote working or home office environments that would help bridge geographical distances.

Security requirements represent a formidable barrier in this regard. Many SMEs lack the CyberEssentials accreditation required for participation, and even those that do may fall short of the full spectrum of standards.

The sensitive nature of defence data necessitates extensive clearances in these domains, which SMEs consequently struggle to obtain at pace.

The role of Primes, in this regard, might be to act as partners enabling SMEs to iterate at both pace and scale.

> "Surely if you've got a gateway profile and you have your security clearance checked on one, then that could be an umbrella term for all the others rather than having to... sign your life away on documents that are pretty much the same on each one."
>
> Interviewee

ACTION

The research identifies the following solutions to these challenges:

MOVE FROM FRAGMENTATION TO INTEGRATION

The SMEs we spoke with felt that the MoD must move from fragmentation to integration in the provision of digital and testing infrastructure. A coherent digital platform for onboarding, testing and deployment - underpinned by secure cloud environments, streamlined accreditation, and AI-enabled compliance tools - would dramatically accelerate SME participation.

EXPAND AND FUND PILOT EXPERIMENTATION ENVIRONMENTS

Multiple interviews called for funded pilot/experimentation environments to evidence capability early on before tenders (as distinct from general test range access). In particular, testing sites for electronic warfare and autonomy must be expanded, better advertised, and opened to new SME entrants. The MoD should work with Ofcom to overcome barriers to EW experimentation and testing to support new SMEs, demystify entry barriers, and showcase viability, enabling Primes to actively cultivate new industry entrants, promoting success stories.

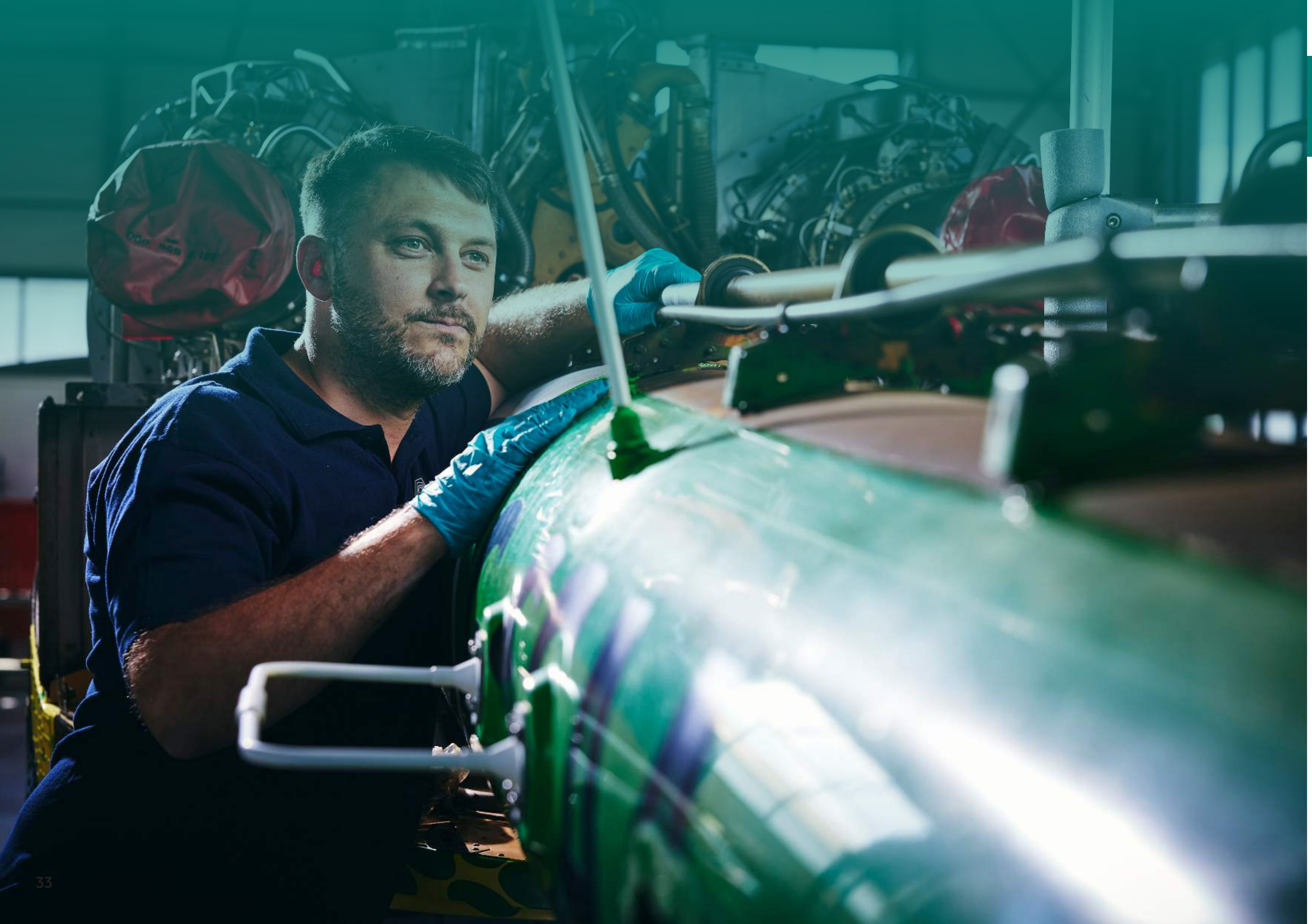
ENABLE MODERNISED DATA-SHARING PROTOCOLS

Data is central to innovation in the contemporary age. modernised data-sharing protocols that enable real-time analytics and operational feedback would allow SMEs to iterate faster, integrate more effectively, and deliver capabilities that are not only cutting-edge but combat-ready.

CREATE SECURE HOME-OFFICE OR LOCAL HARDENED ENCLAVES

For classified work, the SMEs we spoke with express a desire for the creation of secure home office or local secure sites to avoid costly travel; classification rules currently limit otherwise efficient remote software work, and a distributed model of hardened enclaves – potentially something Primes can support - would overcome some of the difficulties in this domain.

> "We need a test-kitchen environment to prove concepts before tenders."
>
> Interviewee



6. PROTECTING THE COUNTRY: ENSURING SOVEREIGN CAPABILITY

Ukraine's digitally-enabled resistance against Russian invasion has catalysed a renewed focus on dual-use technologies and defence innovation.

The new UK policy landscape seeks to emulate and institutionalise the way that procurement barriers were overcome to rapidly flood the battlefield with cutting-edge equipment and technologies via initiatives like Taskforce Kindred.

We heard of numerous examples of how SMEs are pivoting from commercial to defence applications in areas such as autonomy, drones, and satellite communications. Yet the pace of technological change sometimes outstrips the approval timelines to which companies are expected to work, with products rendered obsolete before they reach deployment.

The focus of innovation spending is on things that 'go bang' as opposed to the training and support functions that will enable it to be operationalised and deployed. Geopolitical tensions are also reshaping the supply chains through which SMEs access inputs into their products, necessitating procurement from suppliers in trusted and allied countries such as NATO nation states.

"The growth in European defence spending is a positive and will create opportunities but what is not coming through are commitments to the supply chain."
Interviewee

Interviewees reported that a shift in national narrative towards sovereign capability is a necessary but insufficient condition to keep SMEs operating in the UK. When push comes to shove, SMEs face a real challenge to survive. In such scenarios, capital flight, particularly to thriving defence markets such as in the US, is seen as a serious threat confronting sovereign UK defence capacity. Interviewees suggested that whilst a narrative shift is crucial, the bottom line has to be material and financial.

> "The UK and EU are under constant attack from Russia – cyber, infrastructure; we are on a war footing and supporting UK sovereign capability to provide arms to Ukraine is not just a moral imperative."
>
> Interviewee

In the deteriorating geopolitical context, interviewees saw tremendous external investment flowing into defence, but with this the risk that certain companies try and monopolise the entire vertical in a particular sector based on tenuous, but politically convenient claims, about sovereign supply chains and domestic ownership of IP that appeal to national security priorities.

In practice, venture capital and other investors desire a rapid return on their financial input and their preferred route to this is often much less sovereign than some of the rhetoric would suggest – a company's presence in the UK sometimes concealing a dependence on international supply chains. There is concern that the structure of incentives around UK defence is generating an industrial profile that may not be scalable in the event of tensions ratcheting up towards full-blown conflict; this requires serious thought about where to invest to ensure this scalability.

ACTION

The research identifies the following solutions to these challenges:

REFRAME INNOVATION BEYOND HARDWARE

Whilst hardware is not just ordinance, innovation needs to be re-framed not just around what one interviewee called 'stuff that goes bang' but investment in the training and support that enables its operationalisation and deployment. In the context of geopolitical shifts, interviewees stressed the strategic imperative of sovereign capability. Treasury-driven cost efficiency and short-term contracting undermine the long-term stability required to build a resilient domestic supply chain. SMEs called for investment in infrastructure and re-onshoring of critical capabilities, implying a more expansive vision of national security that includes economic and industrial resilience.

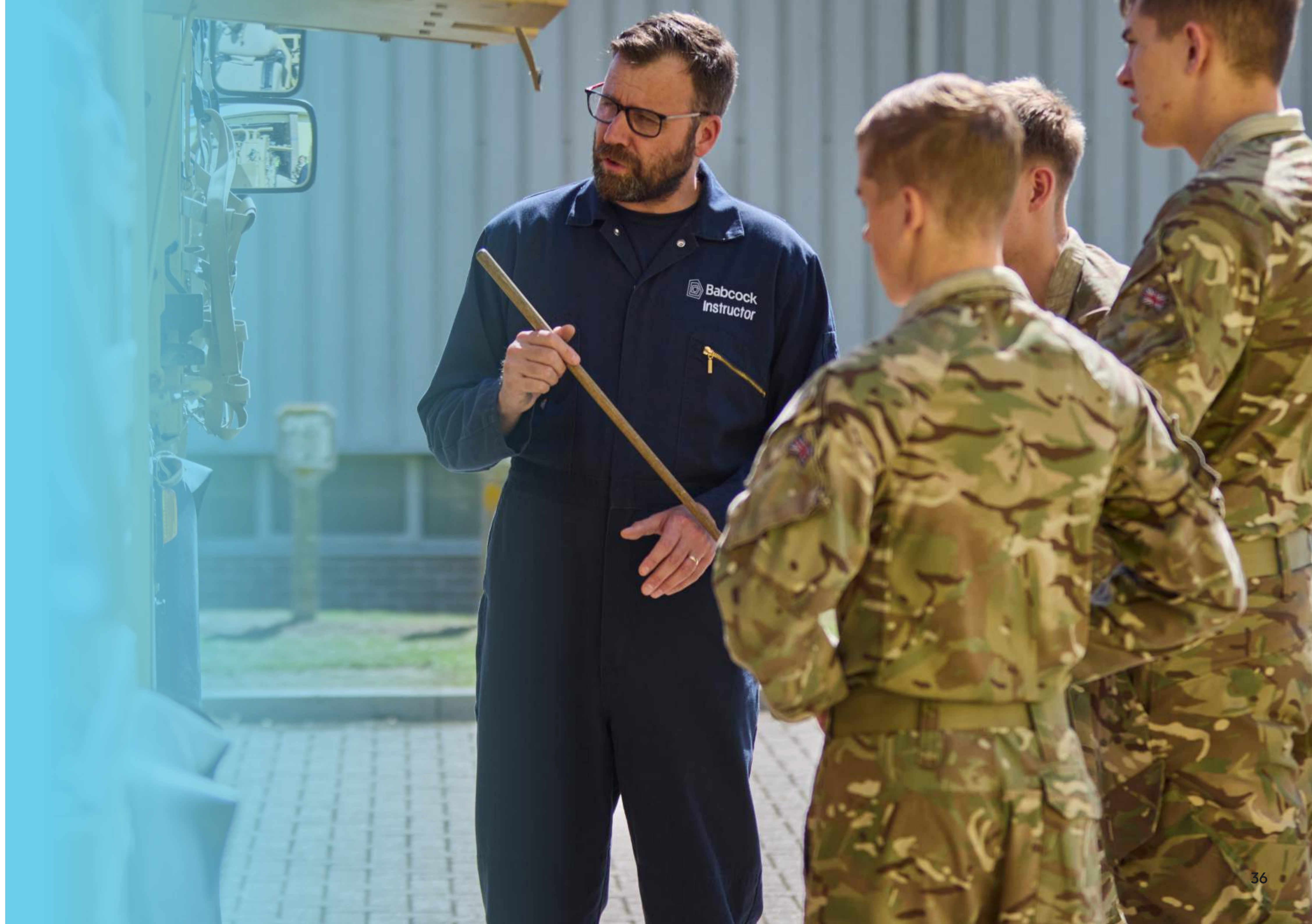
RECOGNISE THE STRATEGIC IMPERATIVE FOR SOVEREIGN CAPABILITY

Important here will be the funding of steady state, always on capacity and capability within the UK. This needs to suspend the stop-start cycle by ensuring that the UK sustains a constant level of sovereign production and innovation that can then be rapidly scaled-up in event of confrontation or conflict. This is the imperative underpinning investment in the SME supply chain, so that SMEs have the resources to deliver and scale immediately when needed and the resources required for the country's defence are distributed across economy and society. This will also require support for trade so that the industrial base can export products and innovations to maintain productivity and profitability pending any future need to redirect this to national purposes.

INVEST IN INFRASTRUCTURE AND RE-SHORE CRITICAL CAPABILITIES

Some of the calls we heard from interviewees in this regard were for investment in the stock of key materials and infrastructure for rapid scaling and intensified support for British companies with British supply chains and IP ownership. This capability investment may sometimes necessitate a broadening of focus in tendering and commissioning away from individual projects towards more substantial programmes of systems and infrastructure development.

> "Defence procurement is about buying stuff that it's aiming never to use. Everything needs to remorph itself into something different when conflict starts when different challenges are encountered... It's not about widgets – it's about messaging the capability to create cool stuff in event of a conflict."
>
> Interviewee



CONCLUSION: UNLOCKING THE SME DEFENCE DIVIDEND

This report reinforces my conviction that SMEs are not just an important ally to UK defence – they are our next line of defence, fundamental for our future.

The ambition articulated in the 2025 Strategic Defence Review and the Defence Industrial Strategy is clear, but the path from policy to tangible impact demands a collective effort.

Government, Primes, and SMEs alike must move beyond historical paradigms and embrace a new era of shared responsibility and collaborative engagement. No single actor can deliver the transformative change required. We all have a role to play at different stages or scales: from raising awareness of existing programmes and improving SME access to them, to addressing what may be misaligned with the reality of SMEs, or tackling challenges not yet central to the industry's attention.

To translate these ambitions into immediate action, I believe we must prioritise critical areas. Firstly, we must dismantle the procurement gauntlet, by urgently putting key recommendations into action, simplifying processes, and implementing risk-proportionate contracting to align with the agility of SME innovation.

Secondly, the role of major Primes must focus on better integrating and enabling SMEs as equal partners, rather than suppliers – a shift Babcock is committed to facilitating through clearer leadership and guidance to foster equitable partnerships, mentorship, and market access.

Finally, this report confirms my own long-held belief that we must fundamentally challenge the status quo and transform the construct of our industry as a whole. The Defence sector has historically been characterised by a few dominant businesses and their established supply chains, excluding smaller, talented and agile businesses who struggle to enter these circles and, critically, whose expertise is often overlooked when it matters most. As a major Prime, Babcock is both part of the problem and the solution, and we have a critical role to play in leading this change. To do so, we are actively implementing new approaches to give SMEs a platform where they'll be heard, provide more transparent pathways to opportunities, and invest fairly in the capabilities of our SME partners. We are committed to leading by example and showing that transforming the industry is possible, truly reflecting the spirit of innovation and collaboration the sector needs.

The urgency for this is undeniable. Geopolitical pressures, coupled with rapid technological advancement, mean that a defence supply chain is a strategic vulnerability we can no longer afford. The insights within this report are a catalyst for evolving our industrial ecosystem into one that is dynamic, inclusive, and truly sovereign. I call upon every leader, across government, industry, and academia, to embrace these recommendations as their own. Let us join forces now to unlock the full, transformative potential of the UK's next line of defence, ensuring a resilient, cutting-edge defence capability for generations to come.

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