



Thales: Value and Impact Study of Australian Supply Chain

2021 report

August 2021

 **accenture**

Commissioned by:

THALES
Building a future we can all trust

Executive Summary: Measuring Thales's supply chain spend and impact (I/II)

Key findings – supply chain spending trends

- Thales is a significant investor in local Australian businesses. **In 2020, Thales spent \$657m with 1,841 Australian suppliers – \$188m was spent on Maritime Service & Support, \$157m on procurement for Protected Vehicles and \$129m for Munitions & Small Arms.**
- Thales's Australian supply chain spend totalled **\$1.9bn over the three years, 2018 to 2020**, of which **70%** was associated with **Maritime Service & Support, Protected Vehicles, and Munitions & Small Arms.**
- SMEs are a critical part of Thales's Australian supply chains, with more than **1,500 SMEs making-up 82% of all Thales's Australian suppliers in 2020**. SMEs also won **56%** of Thales's Australian procurement spending.
- **88% of Thales's Australian suppliers are in NSW, Victoria and Queensland**, as this is where production is located; however, suppliers in all States and Territories receive some investment.

Key findings – supply chain jobs and economic impact

- Spending by Thales on suppliers directly supported **2,051 jobs in 2020**, with **Maritime Service & Support** and **Munitions & Small Arms** making the biggest contributions, at **606 (30%)** and **458 (22%)** respectively.
- Over half of supply chain jobs directly supported by Thales's Australian spending are in SMEs: of the **2,051 jobs supported, 1,087 (53%) are with SMEs.**
- Thales supports jobs with suppliers all across the country, **89% of jobs are in NSW, Victoria and Queensland** as this is where production is located.
- Thales sites have significant local economic impact: across major sites, **28% of suppliers, 33% of spend and 34% of jobs supported are in the same Commonwealth Electoral District as a major Thales site.**



Executive Summary: Measuring Thales's supply chain spend and impact (II/II)

Context for study

- **Understanding the value and impact of Defence Prime spend on local Australian businesses is critical** as the Australian Government ramps-up its \$200bn Integrated Investment Program (IIP).
- Prime defence contractors, such as Thales, are key to translating IIP spend into effective local supply chain and investment programs because they provide a link between the Department of Defence's investment and the many other Australian businesses that participate in the Prime's supply chains.
 - Thales is one of Australia's **largest manufacturers of Defence capabilities in Australia**, with 12 major sites located around the country.
 - Thales is a significant customer for other local Australian businesses that participate in its supply chains, **with spending of \$1.9b in the three years from 2018 to 2020**.
- However, to date there has been little quantitative data available on the local investment programs of Primes, and the impact that their investment has on other local businesses and economies.
- Thales Australia has partnered with Accenture to take a **data-driven approach to quantifying supply chain spending and impact** to analyse Thales's actual spending in 2020.
- This enabled the study to use actual spending and firm-level data to measure:
 - a. The **value of Thales's spending on local Australian businesses in its supply chains**
 - b. The **value and characteristics of this spending by business unit, location and supplier business size**
 - c. The **impact of this spending on local jobs and economies**



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Thales is one of Australia's largest manufacturers of Defence capabilities in Australia, with 12 major sites located around the country

In the three years from 2018 to 2020, Thales spent **\$1.9bn** with Australian suppliers to deliver projects across **12** major Thales sites in Australia

Maritime Service & Support

▪ \$552m spent with suppliers delivering to:

- 1 Garden Island
- 2 Darwin
- 3 Newcastle

Protected Vehicles

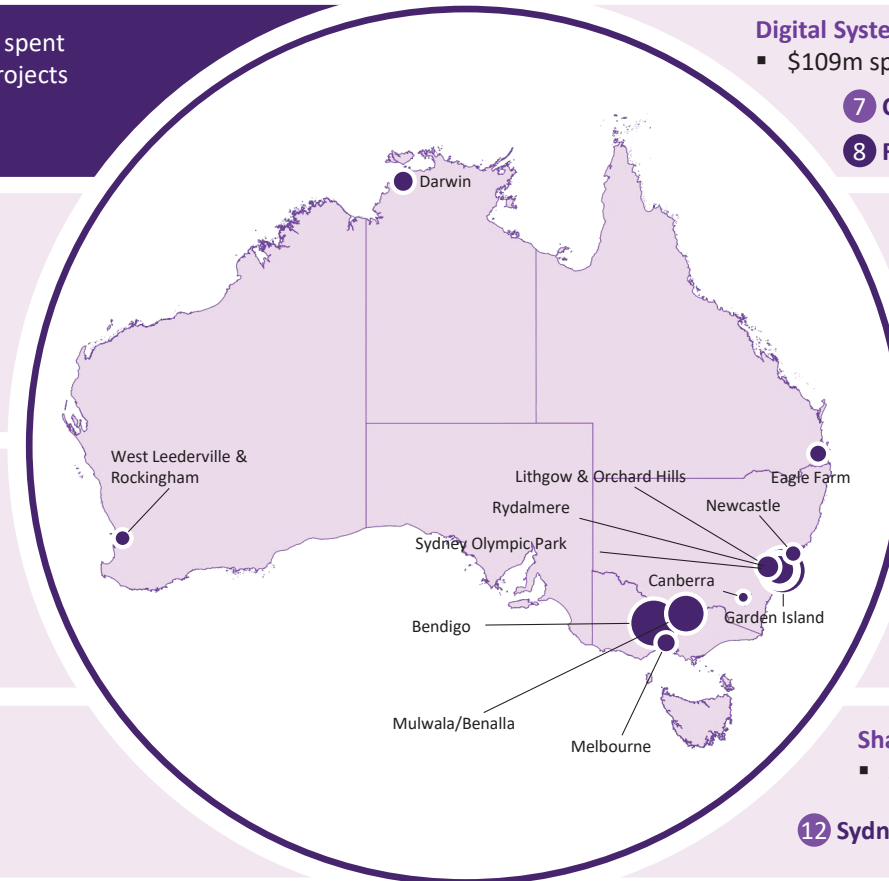
▪ \$398m spent with suppliers delivering to:

- 4 Bendigo
- 5 Eagle Farm
- 6 Melbourne

Air Traffic Management

▪ \$95m spent delivering to:

- 6 Melbourne



Digital Systems

▪ \$109m spend with suppliers delivering to:

- 7 Canberra
- 8 Rydalmere

Under Water Systems

▪ \$78m spent delivering to:

- 8 Rydalmere
- 9 West Leederville & Rockingham

Munitions & Small Arms

▪ \$386m spent with suppliers delivering to:

- 10 Mulwala/Benalla
- 11 Lithgow & Orchard Hills

Shared Services & Corporate

▪ \$290m spent with suppliers delivering to:

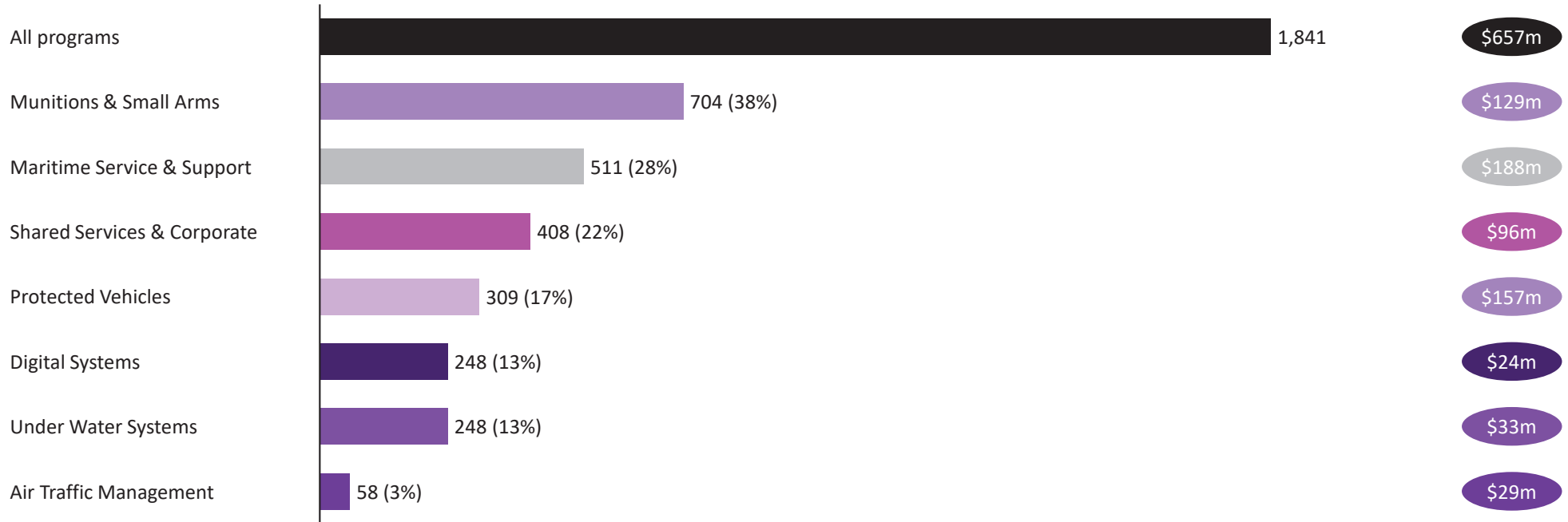
- 12 Sydney Olympic Park and nationally

In 2020, Thales's payments to its Australian suppliers totaled \$657m across 1,841 suppliers

Thales's Australian suppliers by business unit

Total spend for business unit

of suppliers, calendar year 2020

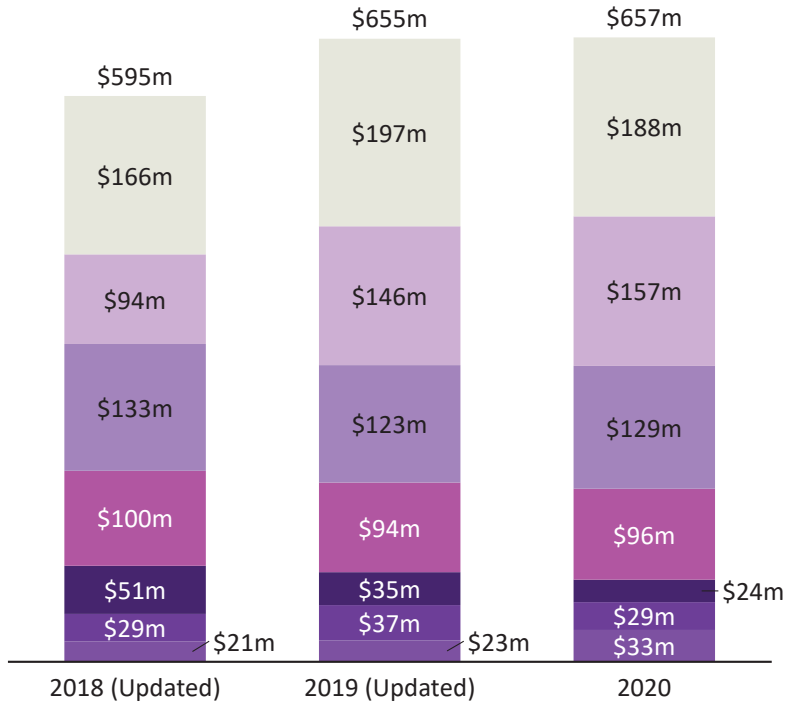


- Providers can supply for multiple projects, hence total number of providers by project is greater than total number of providers used across all business units.

In 2018-2020 Thales spent \$1.9b with Australian suppliers, with Maritime Service & Support, Protected Vehicles and Munitions & Small Arms accounting for 70%

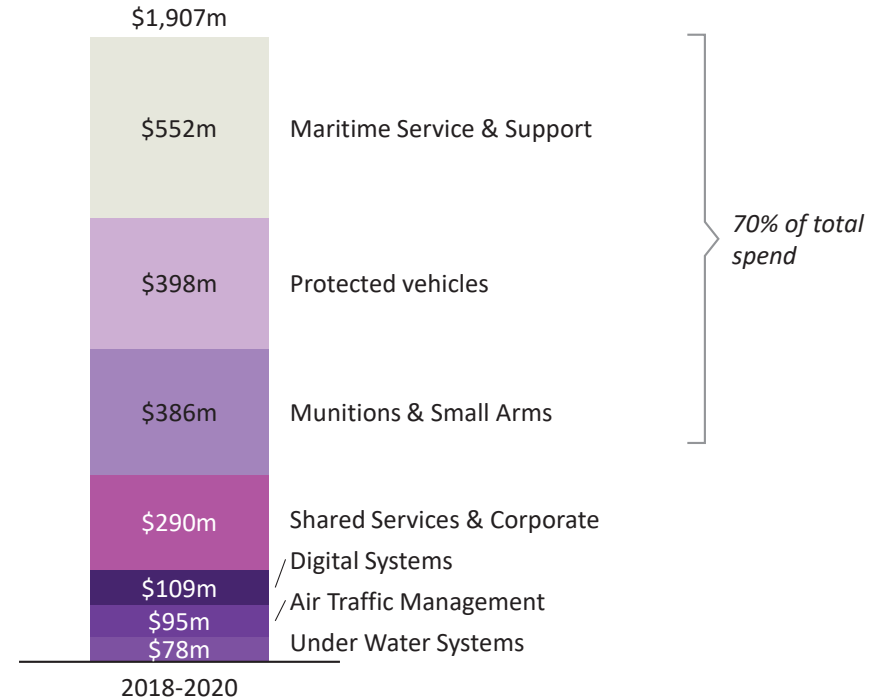
Thales's spending with Australian suppliers by business unit by year

\$m, calendar year



Thales's spending with Australian suppliers by business unit

\$m, 2018-20



NOTE: The 2018 and 2019 spending figures have been updated to reflect the best available information. Spending excludes spend on government departments. 'Digital Systems' was previously named 'Secure Communications & Transport'.
 SOURCE: ABS, Thales procurement and expenditure data, Accenture analysis

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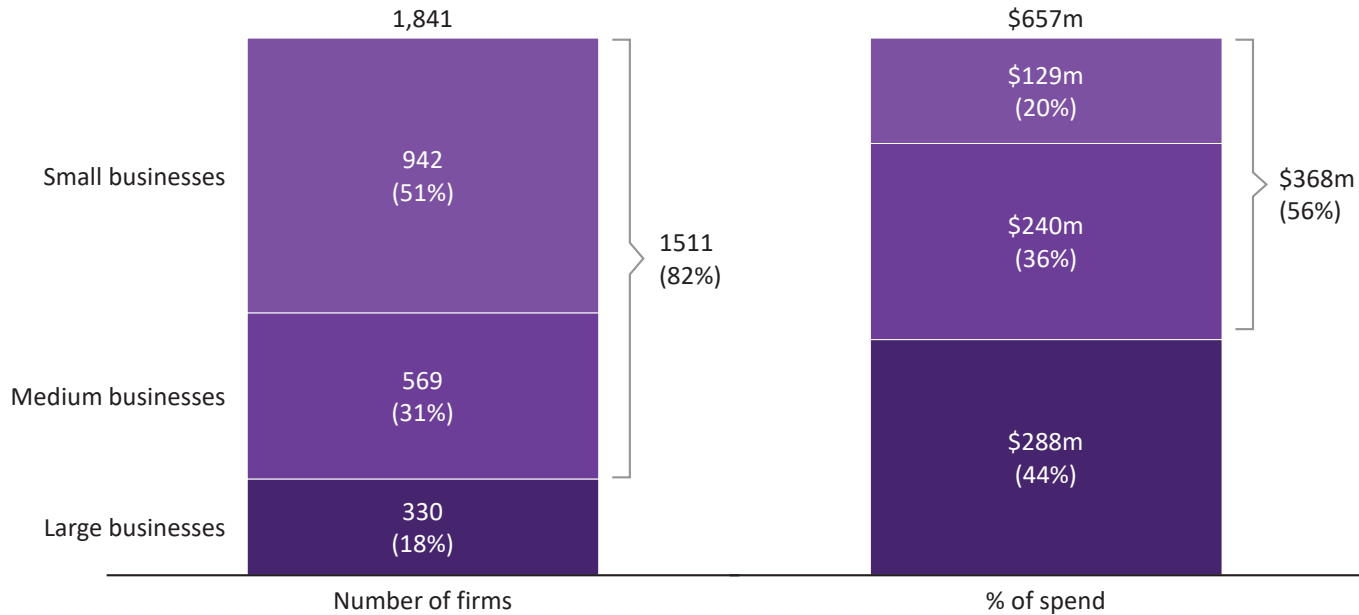
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Appendix: Methodology

SMEs accounted for 82% of the 1,841 Australian suppliers Thales procured from in 2020, winning 56% of Thales's Australian procurement spending

Thales's Australian suppliers and spend by business size

Number (%) of suppliers (LHS) and \$m (%) spend (RHS), calendar year 2020



- Large businesses includes businesses with 200 employees or more
- Medium businesses includes businesses with 20-199 employees
- Small businesses includes businesses with less than 20 employees

NOTE: The sum of spending on small and medium business does not sum to spending on SMEs due to rounding.
 SOURCE: ABS, Thales procurement and expenditure data, Accenture analysis

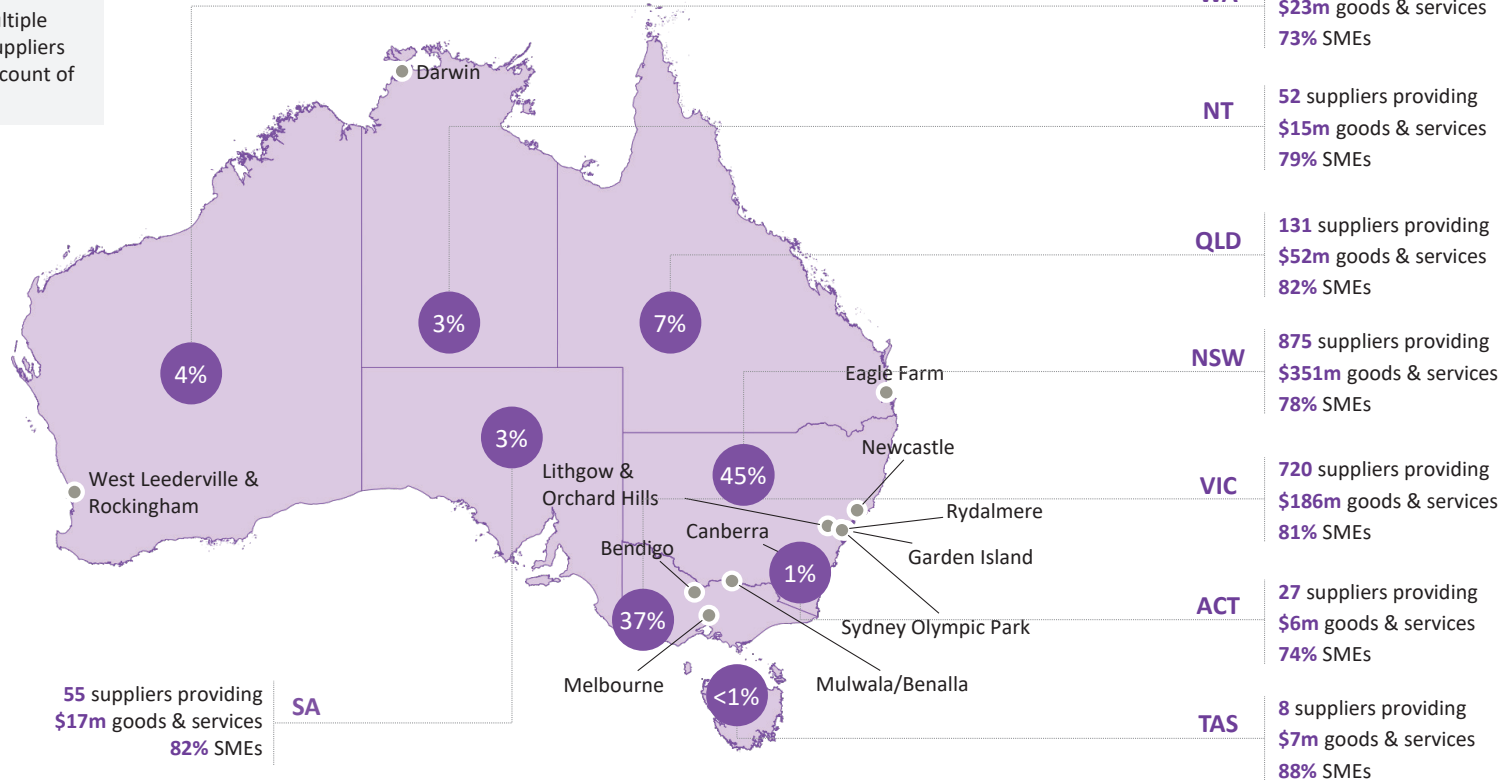
While Thales's supplier base is national, 88% of suppliers are in New South Wales, Victoria and Queensland as this is where production is located

Thales's suppliers by state

X - State share of count of national suppliers

#, \$m, %SMEs, calendar year 2020

Suppliers can operate in multiple states, such that count of suppliers by state is greater than the count of all suppliers



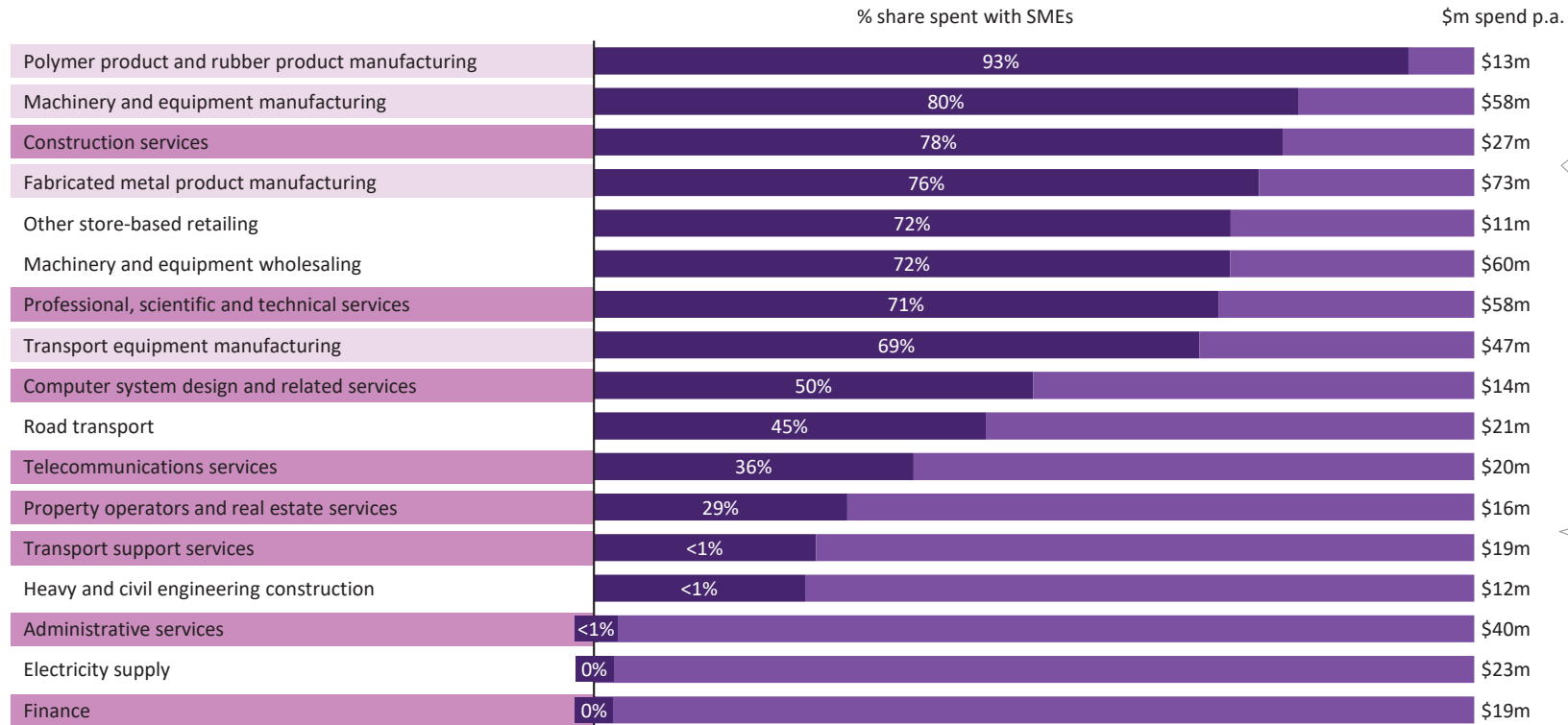
88% of all suppliers

Australian SMEs are most competitive in manufacturing industries, professional services, and construction

Thales's spending by industry

Manufacturing Services SME supplier share Large supplier share

% share for SME and Large suppliers, calendar year 2020



Thales tends to contract SMEs to supply manufactured goods. SMEs provide over 50% of goods four key manufacturing industries. Other areas where SMEs have a dominant share include professional services and construction.

Thales is more likely to contract larger firms to deliver a wide range of services.

Note: Excludes all industries with less than \$10m in spending
 SOURCE: ABS, Thales procurement and expenditure data, Accenture analysis

Australian SMEs are competitive in larger spending industries, accounting for the majority of Thales's spend in 6 of its top 10 largest supplier industries

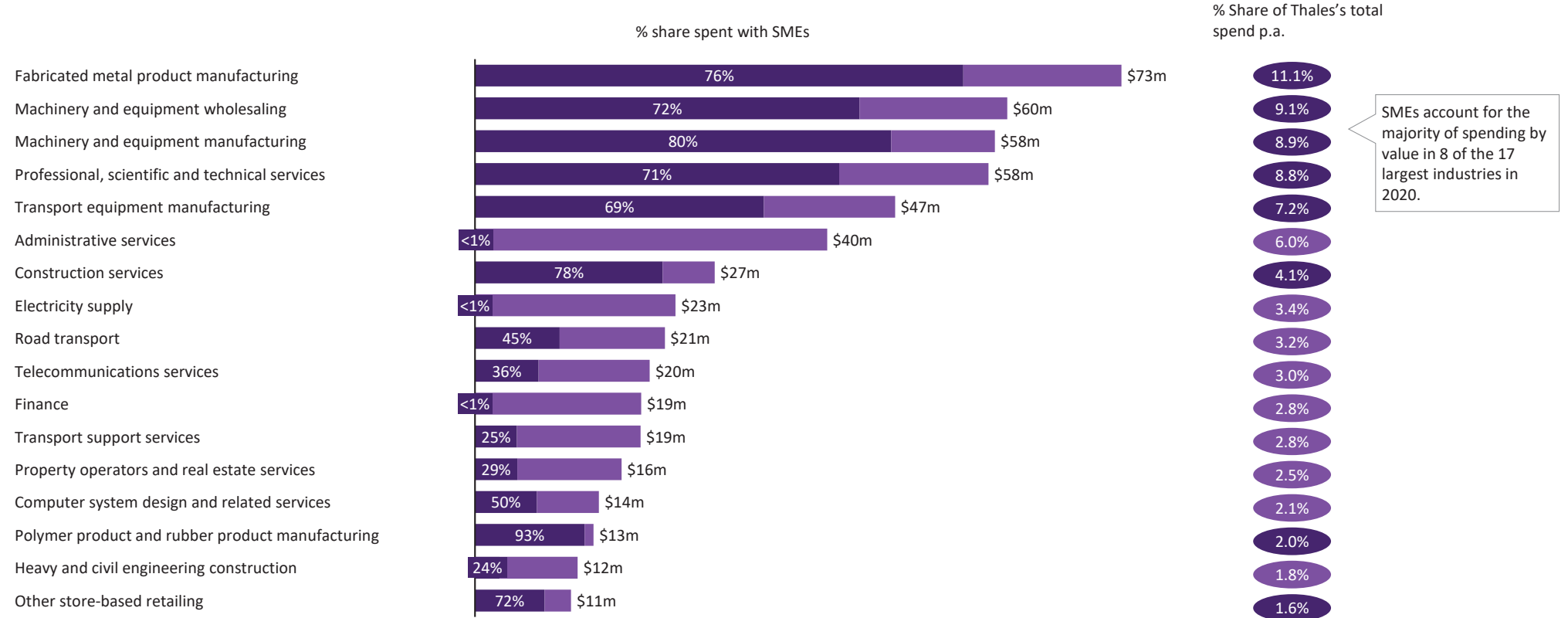
Thales's spending by industry

Large supplier share

Majority SME suppliers

Majority large suppliers

\$m spent with SME and Large suppliers, calendar year 2020



Note: Excludes all industries with less than \$10m in spend
 SOURCE: ABS, Thales procurement and expenditure data, Accenture analysis

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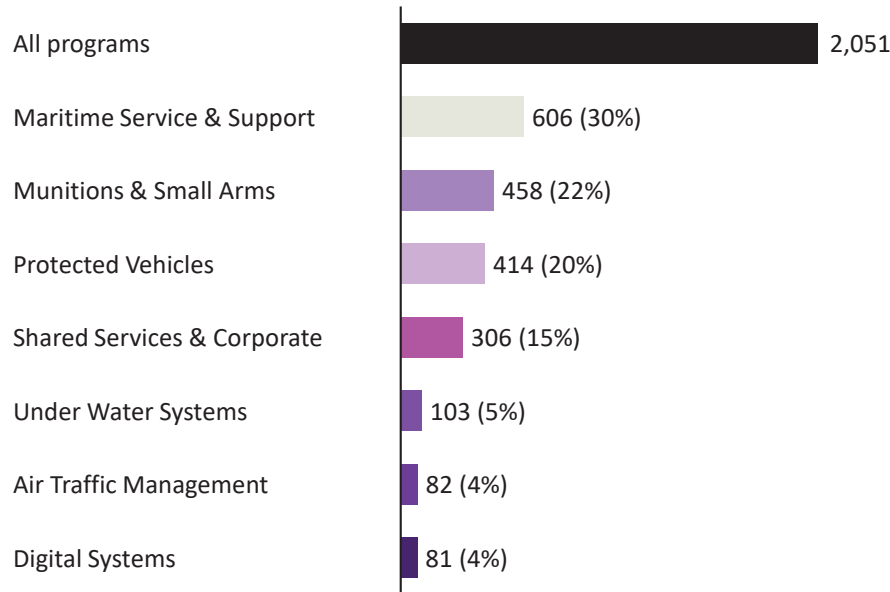
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Thales's Australian supplier spend directly supported 2,051 jobs in 2020, including 1,087 with Australian SMEs

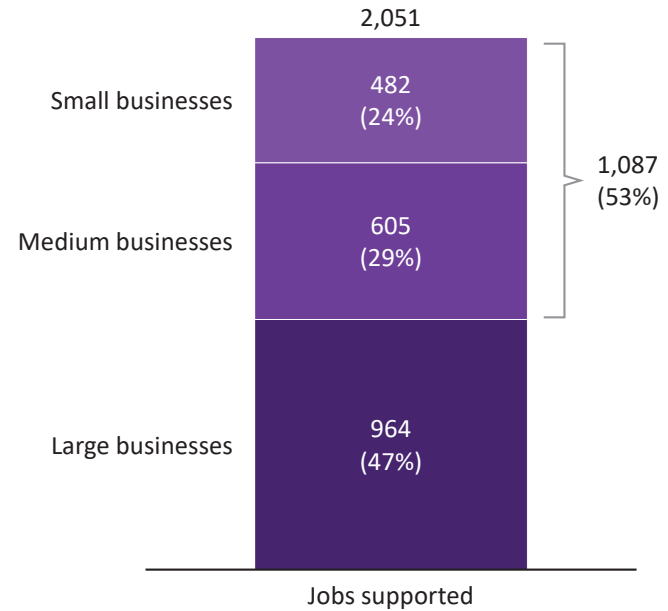
Thales's jobs supported by business unit

of jobs supported, calendar year 2020



Thales's jobs directly supported in SME/Non-SME suppliers

% of jobs directly supported, calendar year 2020



- Large businesses includes businesses with 200 employees or more
- Medium businesses includes businesses with 20-199 employees
- Small businesses includes businesses with less than 20 employees

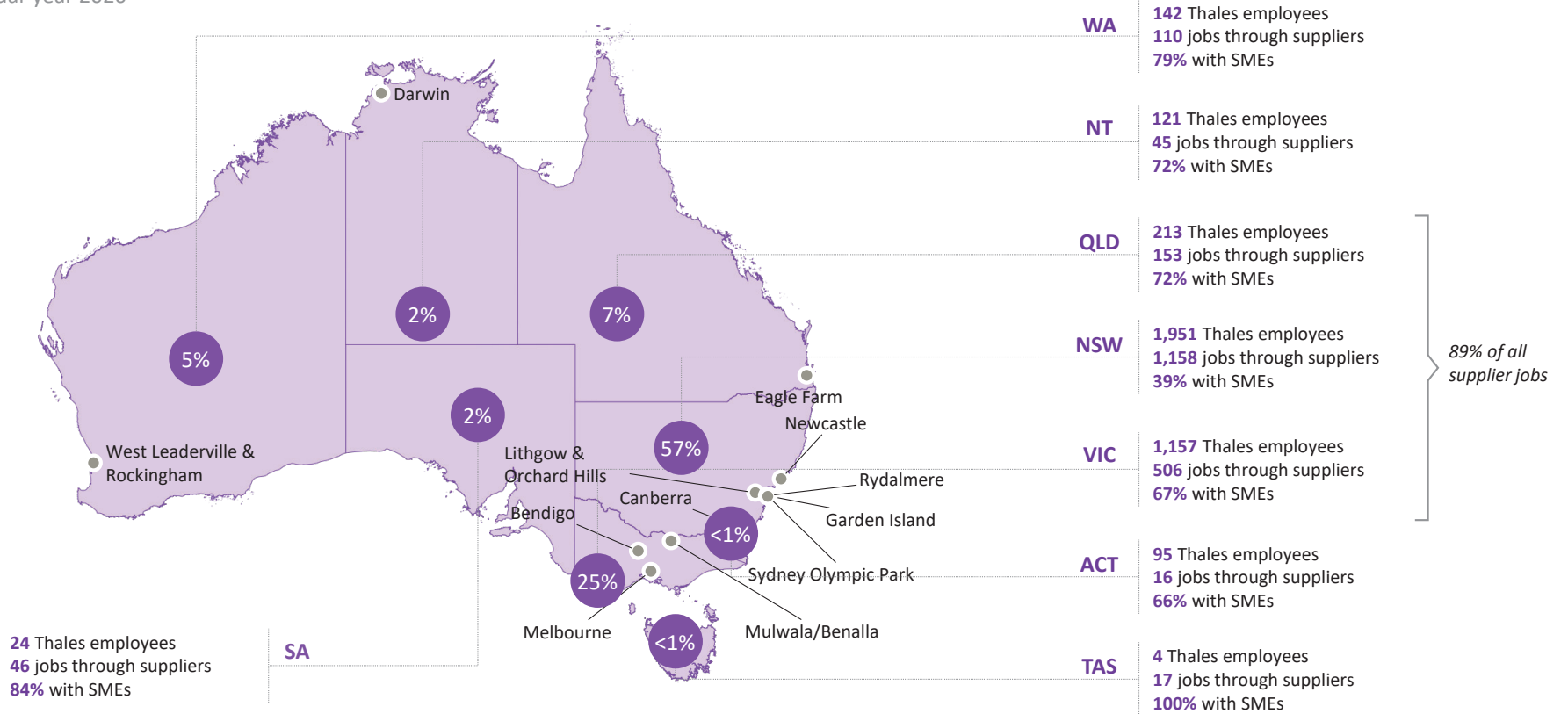
NOTE: Thales's jobs supporters only includes jobs in Thales's direct suppliers. Percentages may sum to over 100% due to rounding.
 SOURCE: ABS, Thales procurement and expenditure data, Accenture analysis

While Thales's supplier base is national, 89% of supplier jobs are in NSW, Victoria and Queensland as this is where production is located

Thales's jobs supported by state

X - State share of national jobs directly supported through suppliers

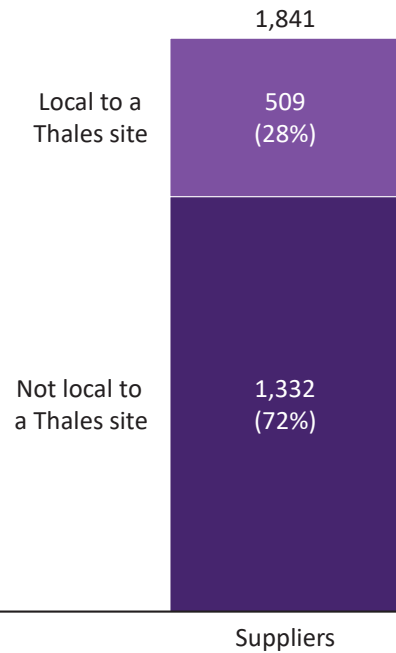
#, \$m, %SMEs, calendar year 2020



Thales sites have significant local economic impact: a significant proportion of suppliers, spending and jobs occur in the same locality as a Thales site

Thales's suppliers

#, calendar year 2020



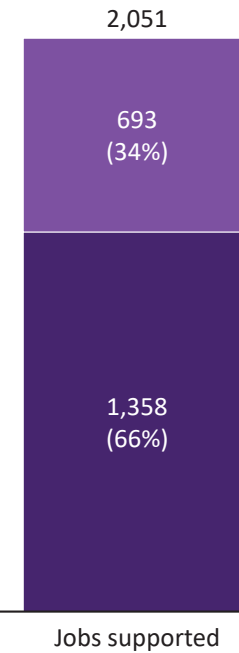
Thales's spending with suppliers

\$m, calendar year 2020



Thales's jobs supported

#, calendar year 2020



A supplier is local to a Thales site if it is in the same Commonwealth Electoral Division as one of the 12 major Thales sites.

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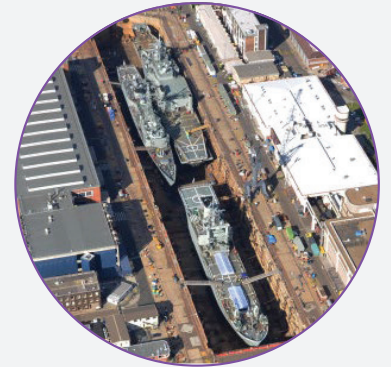
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The Garden Island site in NSW houses the largest vessel repair and maintenance graving dock in the Southern Hemisphere



Thales’s **Garden Island** site provides ship support, sustainment and lifecycle management for the Royal Australian Navy. Thales has operated services at the Garden Island Naval base since 1999. At this site, Thales also repairs and maintains a number of commercial vessels such as cruise ships and ferries.

The Garden Island Naval Dockyard is well-equipped with vessel repair and maintenance infrastructure, including a 65-tonne capacity fixed dockside crane, electricity sub-stations and dry dock civil infrastructure. The Garden Island Naval Dockyard also houses the Captain Cook Graving Dock, the largest ship repair and maintenance graving dock in the Southern Hemisphere.



In 2020, this site contracted Australian suppliers to deliver **\$125m** in goods and services as summarised below:

Suppliers



\$125m spending with Australian suppliers
\$74m (59%) of which spent with SMEs

Jobs



433 employed directly by Thales
413 supplier jobs directly supported by the Garden Island site

The Bendigo site is used to manufacture Hawkei and Bushmaster Protected Mobility Vehicles (PMVs)



Thales's **Bendigo** site houses Thales's Protected Vehicle Centre of Excellence encompassing the design, engineering and manufacture of the world's most advanced Protected Vehicles, the Bushmaster and Hawkei.

Hawkei is now in full rate production and achieved Initial Operating Capability (IOC) with the Australian Army in early 2021. The manufacture of Hawkei PMVs supports over 300 jobs at Thales's Bendigo site, including engineers, fabricators and trades.

In 2020, Thales's Bendigo site won a contract worth over \$70m to produce 43 Bushmaster PMVs for the New Zealand Army. More than 1200 Bushmasters have been manufactured at the Bendigo site for the Australian Army and export customers.



In 2020, this site contracted Australian suppliers to deliver **\$136m** in goods and services as summarised below:

Suppliers



\$136m spending with Australian suppliers
\$92m (67%) of which spent with SMEs

Jobs



317 employed directly by Thales
360 supplier jobs directly supported by the Bendigo site

The Lithgow site invests heavily in infrastructure and research in its production of small arms



Thales's **Lithgow** site manufactures and maintains small arms and has provided Australia's sovereign manufacturing capability in small arms for more than a century. It is a major regional employer and more than 90% of content used in production either sourced locally or made on site.

Over the past ten years more than \$70m has been invested in site infrastructure and equipment to modernise small arms manufacturing, most recently the \$1.8m investment in a honing machine for the rifle production line. The current focus of site R&D is on emerging technologies including 3D printing and advanced optical capabilities, for integration into the next generation of small arms for the ADF.



In 2020, this site contracted Australian suppliers to deliver **\$8m** in goods and services as summarised below:

Suppliers



\$8m spending with Australian suppliers
\$6m (79%) of which spent with SMEs

Jobs



134 employed directly by Thales
27 supplier jobs directly supported by the Lithgow site

The Rydalmere site in western Sydney delivers sovereign industrial capability in sonar systems and mine countermeasures



Thales's **Rydalmere** site is involved in a variety of projects including the design, manufacture and export of submarine sonar systems, anti-submarine warfare systems, mine countermeasures, training and simulation, secure communication and ground transportation. In 2020, Thales signed a \$23.7m contract with the Australian Government to deliver enhanced sonars for Collins Class Submarines. This project is expected to support approximately 30 jobs at Thales's Rydalmere site.

The Rydalmere site is also heavily involved in railway digitalisation and infrastructure projects. This site has developed signalling and communications systems for the Sydney Metro Northwest project and the Parramatta Light Rail project.



In 2020, this site contracted Australian suppliers to deliver **\$55m** in goods and services as summarised below:

Suppliers



\$55m spending with Australian suppliers
\$33m (60%) of which spent with SMEs

Jobs



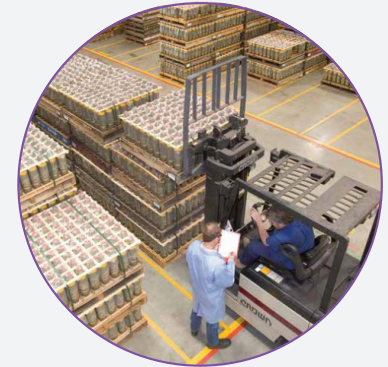
515 employed directly by Thales
171 supplier jobs directly supported by the Rydalmere site

The Mulwala and Benalla sites produce munitions and ordnance for the Australian Defence Force



Thales's **Mulwala and Benalla** sites manufacture world-leading small arms ammunitions and propellants for the Australian Defence Force and key export markets. The Mulwala site produces military-grade rocket propellant, high explosives, solid fuel rocket motors and boosters. The Benalla site manufactures high explosive artillery rounds.

In 2020, Thales signed a \$1.1bn 10-year Strategy Domestic Munitions Manufacturing contract with the Australian Government for the continued management and operation of the Benalla and Mulwala munitions factories. Thales has invested over \$20m in research and development and \$25m in capital infrastructure in the Mulwala and Benalla sites over the last 10 years, positioning these sites to develop cutting-edge products for the Australian Defence Force.



In 2020, this site contracted Australian suppliers to deliver **\$87m** in goods and services as summarised below:

Suppliers



\$87m spending with Australian suppliers
\$55m (64%) of which spent with SMEs

Jobs



643 employed directly by Thales
253 supplier jobs directly supported by the Mulwala and Benalla sites

The Eagle Farm site provides repair and maintenance services for Protected Vehicles



Thales's **Eagle Farm** site houses the Vehicle Support Centre, which manages the full life-cycle capability of Protected Vehicles by services such as repair and maintenance. The Eagle Farm site currently supports over 140 jobs, including engineers, mechanics, procurement officers, and fitters and turners.

The Eagle Farm site is equipped with substantial maintenance infrastructure, including Bushmaster and Hawkei paint booths, bespoke heavy equipment dollies, hull rotators and gantry cranes.



In 2020, this site contracted Australian suppliers to deliver **\$21m** in goods and services as summarised below:

Suppliers



\$21m spending with Australian suppliers
\$18m (83%) of which spent with SMEs

Jobs



142 employed directly by Thales
54 supplier jobs directly supported by the Eagle Farm site

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Data sources used include ABS, Stirista and Thales procurement and expenditure data; missing data was imputed by combining data from multiple sources

Variable	Primary source	Imputed observations
Spend	Thales	All supplier figures are based on Thales procurements and expenditure data, no imputed observations
Industry	Stirista	Where ANZSIC industry codes were missing, ANZSIC industries were assigned to firms' based on desktop research
Supplier employee numbers	Stirista	Where Stirista data was missing employee numbers, employee numbers were imputed using ABS industry employee/revenue ratios for the firm's ANZSIC industry subdivision
Business size	Calculated	Business size based on either actual or imputed employee numbers: <ul style="list-style-type: none"> ▪ Large: ≥200 employees ▪ Medium: 20-199 employees ▪ Small: <20 employees

We estimated the direct employment impact from Thales's procurement spending and calculated the economic impact attributable to each site

Variable

Jobs supported

These are jobs with Thales's direct suppliers

Calculation

Calculated as:

$$\# \text{ Jobs supported per supplier} = \frac{\$ \text{ spend by Thales}}{\$ \text{ revenue per employee ratio for supplier's industry (ABS)}}$$

1. Where ANZSIC data is missing, the average revenue per employee ratio for known Thales suppliers is used

Jobs and spending attributable to each Thales site (case studies)

1. Where the Thales delivery site for a particular transaction was known, the associated spend and jobs directly supported were attributed to the identified Thales site
2. Where the Thales delivery site for a particular transaction was not known, the associated spend and jobs directly supported were apportioned to sites based on the business unit associated with the transaction and Thales employment data

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