



## Executive Roundtable: MRO Military Cost-Cutting Strategy

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**Just three days after a near shut down of the U.S. government, leaders from industry and government met for the seventh annual Aviation Week Executive Roundtable: MRO Military. In past years, participants have focused on key performance parameters, changing business models, cost containment and continuous process improvement. For 2011, a single focus emerged – affordability.**

**The roundtable, held April 11 in Miami in conjunction with the Aviation Week MRO Military Symposium, was hosted by Vice Adm (R ) Jim Zortman, Sector Vice President – Life Cycle Logistics and Support, Northrop Grumman Aerospace Systems, and Michael Bruno, Deputy Managing Editor for Defense, Space & Security, Aviation Week. Siemens PLM Software hosted the roundtable.**

**Over the past eight years, Aviation Week has convened more than three dozen roundtables to define actions designed to support a healthy enterprise and its customers. The roundtable participants divide into small groups to identify possible solutions. Attendees then select the areas seen as most important, but also which can be achieved in the near term.**

**The April 11 roundtable was attended by representatives of AAR Corp., AeroStrategy, BAE Systems, Battelle Institute, Boeing, Chromalloy, DRS Technologies, Deloitte, Eaton, HEICO, L-3 Communications, Lockheed**

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**Martin, Moog, Northrop Grumman, Office of Secretary of Defense, Pratt & Whitney, Sikorsky, Raytheon, Rockwell Collins, U.S. Air Force, U.S. Navy, and University of Tennessee-Knoxville Center for Executive Education.**

**Given the direction from the Defense Dept. to cut operating costs (do more with less), participants worked to identify key actions that would allow them to achieve the cuts/affordability while also noting the increase in operating tempo and disparate missions around the globe.**

**The actions the group identified as top priorities included:**

- **Gain acceptance of FAA certifications where applicable.**
- **Improve business case analysis process.**
  - **Assure transparency so industry knows what/how, providing for better decision-making regarding investment and execution.**
  - **Assure commonality in how the analysis is conducted.**
- **Assure a defense industrial base strategy that includes sustainment (cutting cost 10% across the board is not a strategy); there was common belief that this has been attempted in some aspects of Defense Dept. but not all.**

**Next Step: A sub-committee will form to move these actions forward with appropriate Defense Dept., joint operational, and other groups. The objectives are to ID when/where FAA certification should be adopted to gain cycle time and cost advantage, define/develop common practices for business case analysis; and assure that sustainment is incorporated into developing industrial base strategy.**

In addition to these actions, the participants identified several areas of focus to drive out cost, specifically around the inconsistencies in 50/50 regulatory implementation and reduction of cycle times using standardized data, engineering processes. Also discussed was assuring flow-through from depot/readiness center to line maintenance to achieve full integration and transparency that will enable condition-based support of systems.

Following is detail of each small group's discussion.

**Table 1**

- **As efficiency gains are realized, the 50/50 algorithm creates need to rebalance, affecting contractual and long-term decisions.**
- **Statute around public private partnerships is being applied to activity not covered, e.g. logistics management, supply chain management. The definition is handled on an individual and/or location basis versus consistently.**
- **For those activities not covered by statute, the enterprise would be better served by allowing a market to develop around these activities.**

- We need to allow commercial derivatives to operate under FAA certificates versus separate defense sustainment standards. Not doing so has meant that parts are less available and more costly. We recommend a review board to determine how exceptions can be determined.
- Recommend more centralization/consolidations within a service, particularly in the area of intermediate maintenance.
- Establish a “hard” definition of what is required by statute in terms of maintaining a depot capability. There is a pending action in this area with hearings scheduled Summer 2011.
- Noted that KC-46 (tanker) team is working with the FAA to set up a means to adapt certifications and data, energy-driven in some cases, that will provide for upgrades to match and achieve savings experienced in commercial variant.

**Table 2**

- Long-term strategy for sustainment/MRO needed, which includes cost reduction but more; this requires a systems approach not currently applied due to the political nature of depot employment but also because of frequent changes in leadership.
- Common business case analysis process needed across the enterprise; must include total cost comparisons; standardize across all branches with a common framework.
- “Should” cost analysis is being determined by previous programs, not expertise on the reality of new technologies and requirements; a foreign concept in the sustainment arena.
- Some commonality needed in terms of audit, evaluation, and review of sustainment efforts – legacy as well as new systems.
- We are not incorporating “cost of change” as part of the cost.

**Table 3**

- Basics for cutting cost are reducing cycle time, upgrades designed to cut cost, increasing time in field ready for a sortie.
- Reducing cycle time inherently will require investment to identify choke points and technologies.
- There is no discussion under way about what is needed in terms of cycle time reduction in the next 12 to 18 months. It’s a missing link.
- If cycle time reduction for overall systems (not necessarily sub-systems; this must be strategic to drive top) was 50% by 2020, it would drive a change in behavior based on economic and execution factors.

**Table 4**

- Color of money inhibits rapid development, deployment and integration of new technologies designed to cut cost, improvement quality.

- How many developments have commercial equivalents that have not been integrated on the military sustainment side? Need an effort that looks for targets of opportunity and share across platforms.
- Accept FAA approvals and commercial engineering authority for class 1 ECPs; may require relief from liability.
- 50/50 may impede rapid deployment of modification installations; major and minor modifications are viewed differently and we need to smooth that difference for a common approach (overlap between repair and modification??)
- There is not an sustainment industrial strategy across the Defense Dept.
- Commercial standards are not a panacea – not quite as standard as implied.

**Table 5**

- 50/50 should be part of a larger industrial strategy and probably not an area where we should focus if we are looking for results here/now.
- > Business case transparency needed – how did logic develop and why as to how a platform’s sustainment is being handled.
- In looking at various acquisition business models, what is the connection to the warfighter – we should be asking that question.
- We compete the first 30% of any weapon system program – it’s development and production; the remaining 70% (the sustainment) is not competed well; requires government to acquire the data.
- Must be careful in looking at other countries’ solutions to sustainment – does not work with U.S. legislative process or funding.

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