



Executive Roundtable: Meeting the Affordability Initiative Intent

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The U.S. Department of Defense budget request for fiscal 2013 was submitted Feb. 13, setting the stage for the Aviation Week Executive Roundtable Feb. 15 in Washington, DC. Leaders from across aerospace and defense used the meeting to analyze risks and gaps, and develop recommendations to meet the intent of the Defense Department's Better Buying Power and Affordability initiatives.

Hosted by Philip J. Dunford, VP/GM Operations Executive, Boeing Military Aircraft, and Aviation Week & Space Technology Editor-in-Chief Tony Velocci, the meeting was sponsored by Dassault Systemes.

Aviation Week convened its first Executive Roundtable in November 2004 as a means for aerospace and defense leaders to come together in a non-competitive environment to discuss issues and challenges impeding program, business and government performance. In the past nine years, more than 40 roundtables have been convened to define actions designed to support a healthy A&D enterprise. The roundtable participants divide into small groups to identify challenges, discuss possible solutions and then provide an overview to the group. Attendees then select areas seen as priorities.

Individuals attending the Feb. 15 meeting represented Alenia, EADS, Renaissance, Boeing, BAE Systems, Elbit Systems, Rockwell Collins, Parker, IBM, Grundman Advisory, Northrop Grumman, ITT Exelis, A.T. Kearney, Pratt & Whitney, LMI Aerospace, Capital Alpha Partners, Ball Aerospace, L-3 Communications, Dassault Systemes, and Goodrich Corp.

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Key recommendations and observations for the roundtable included:

- **At the working business unit and Defense Dept. level, conduct a joint acquisition process review to eliminate non-value-added activity, and reduce cycle time and improve overall operational performance.**
- **Share with the Defense Dept. concerns that investment in basic research (61-63) is leaving gaps that are not “reversible.”**
- **Assuring continued industry investment in research and development requires collaboration versus handoff to assure maximum affect and risk reduction.**
- **Identify specific threats within the supply chain resulting from the budget drawdown and assure mitigation where required.**
- **“Should-cost” deliberations require transparency of assumptions leading to initial targets.**

Table 1

Leaders discussed the impacts of the proposed 2013 defense budget, impact on the industrial base and gaps that represent risk to future national security.

Findings include:

- Industry is risk averse in terms of IR&D investment, as all-new innovation requires careful alignment with Defense Dept. timing.
- Corporate entities must be assured of obtaining 11-12% return on investment, which may require investing in areas outside traditional defense markets.
- One outcome of the budget will assuredly be the loss of human capital – inside the Defense Dept. and across industry.
- Leaders anticipate there will be some divestment within portfolios and subsequent consolidation at most levels of the supply chain; some capabilities almost certainly will disappear.
- Industrial base analysis needs to clearly state that innovation occurs at lower tiers of the supply chain where cuts and schedule extensions will have the biggest impact. The U.S. is at risk of losing leadership role in rotorwing; will this budget heighten this loss and are there other capabilities that will be similarly affected and how can this be mitigated?
- In the coming months we will see hyper-politicization of the budget in support of specific programs and facilities.
- Increasingly, foreign sales are requiring transfer of intellectual property.
- Following the collapse of the Soviet Union in the early 1990s and resulting defense budget drawdown, many companies lost market-leadership positions as a result of “hunkering-down” strategies.

Table 2

Table 2 examined the budget proposal's affect on R&D and future investment options.

- Shared investment needs to incorporate government-to-industry, industry-to-industry, and academia-industry-government.
- Reducing risk of investment requires clarity of requirements and strategy that currently does not exist.
- Shared investment and dual prototyping will demand articulation of how intellectual property is shared and how competition will be defined. (hardware vs. software as an example)
- Security requirements in the Asia/Pacific region are dramatically different than those experienced in the past decade; as an example, the definition of electronic warfare is very different.
- How do we fully integrate and share innovation with global partners and the global engineering community?
- If we want industry to conduct research strictly for the benefit of national defense, what is the best business model and is it different from the ones that military contractors have used traditionally?

Table 3

Leaders reviewed the budget in terms of opportunities and risks.

- The primary risk is that any further reduction to R&D will affect the lower tiers/smaller players in the value chain where innovation is greatest.
- Opportunities are created by the transfer of key technologies from military to commercial markets.
- The economic environment and necessary reductions provide an opportunity to rethink the supply chain, identify core competencies and technologies needed in the future.
- As part of the budget preparation, we need to build a recovery plan that addresses the basic workforce, technology, surge capacity requirements; how do we maintain talent/knowledge throughout the drawdown?
- We are not being realistic – we cannot address affordability when the cuts that are being proposed result in higher per unit costs.
- Recovery/reversibility is a difficult situation: if we just look at manpower and the future need to recruit more troops, it is possible; however, who will lead these new recruits? The same situation exists in industry, and we only recently recovered from the mid-career gap created in the 1990s.

Table 4

Leaders discussed the issues surrounding should-cost initiatives and assuring deliverable results.

- It is evident that within the Defense Dept. there is a tension between the program leadership and the contracting/acquisition professionals.
- Targets established for should-cost must include a transparent set of assumptions on which the target is based.

- Operating should-cost – what does that mean?
- There needs to be incentives, based on percentage improvement, toward the should-cost target.
- Changes in production volume/timelines must result in adjusted should-cost target.
- Should-cost calculus must include profit margin as part of incentives – the margin is important in the ability to attract/keep people to develop new methods/processes, technologies to contribute to should-cost.
- Should-cost calculus must include cost of disruption and the impact on supply chain.

Table 5

Leaders focused on the most important things needed to preserve and build for the future.

- Adjacent markets represent opportunity; need to assure and monitor the cost required to transition this part of the industry back to defense when required.
- Corporations need to identify and align themselves with non-traditional parties who can serve as building blocks for future capacity and capabilities (universities, smaller boutique-like operations, businesses serving global allies).
- Clearly identify shared risk across the value chain (the example of circuit boards and mapping finds there really are only three qualified suppliers upon whom all are relying).
- The Joint Capabilities Integration and Development System process continues to stymie the accomplishment of work. Is now the opportunity to review/revise and do something different?

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