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# AVIATION WEEK

## Supply Chain Roundtable

*White Paper*

Carole Rickard Hedden  
November 6, 2012  
Phoenix, Arizona

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The logo for Software AG consists of a white stylized 'S' symbol on a dark blue background, followed by the word "software" in a white, lowercase, sans-serif font, and "AG" in a smaller, white, uppercase, sans-serif font to the right.

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Government Solutions

## SUPPLY CHAIN ROUNDTABLE

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Leaders from all tiers of the supply chain, including executives from the original equipment manufacturers, met for the fourth annual Supply Chain Roundtable in November. Their focus was on integrating all levels of the supply chain into decisions made to reduce cost. This is critical if the industry is to assure a viable supply chain and performance to requirements during the Defense Dept. drawdown. Software AG sponsored the roundtable.

Joe Anselmo, Aviation Week's managing editor, hosted the roundtable. Attending were people from Aerospace Industries Assoc., Bell-Boeing V-22, BAE Systems, Boeing, Moog, National Defense Business Institute, International Tool, Die & Engineering, Plasma Ruggedized, CPI Aero, Rockwell Collins, Northrop Grumman, Lockheed Martin, Raytheon, and Galaxy Tool.

The Supply Chain Roundtable follows the format of all Aviation Week roundtables – open, candid discussion directed by a series of “prompt” questions. The objective is to identify actions that when taken as individuals or as a group of individuals will result in improved performance.

Priorities identified during this roundtable included:

1. Expansion of supply chain sourcing on a global basis to enable foreign military sales.
2. Setting in place long-term relationships with suppliers wherever and whenever possible to assure business and cost stability.
3. Evaluate the supply chain on a programmatic basis, but also across the broader perspective of an organization to assure quality, balance, and sound relationships required to achieve cost and best thinking/innovation.
4. Working with customers and suppliers, move the U.S. toward more performance-based contracting that incorporates lessons learned from European and Canadian acquisition strategies.

Following are details of the small group discussions leading to these priorities.

### Table 1

As we move through this cost and budget environment, what is the situation with regard to transparency and visibility across the supply chain?

- There are barriers to transparency
  - ☐ Lack of consistency
  - ☐ Complexity
  - ☐ Culture
  - ☐ Intellectual property
  - ☐ Reluctance in investment
  - ☐ Scope of the universe of supply
  - ☐ Increasing regulatory requirements
  - ☐ Partners versus competitors
- To achieve transparency, we need
  - ☐ Optimization of Tier 1 systems approach
  - ☐ Long-term relationships with suppliers
  - ☐ Culture of trust
  - ☐ Standard processes

What are the best methods to create a strong supply chain?

- In-source where appropriate/outsource where strategic.
- Improve the way we acquire from our suppliers.
- Provide business assistance to suppliers where needed. (not one size fits all)

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- Allow proven suppliers to expand their business base within an organization – incentivize clarity and availability of data!

### Table 2

How can strategic supplier agreements be utilized to enhance overall supply chain performance – at program level but also enterprise level?

- Establish a shared destiny.
- Reduce risk via effective agreements.
- Bring suppliers into the discussion at proposal/development stages or as early as possible.
- Set longer-term agreements that benefit both programs and enterprise.
- Create shared ownership.
- Performance-based contracting by Defense Dept. will drive supply chain improvement.
- Suppliers who are asked to provide a turnkey solution have proven to be stronger suppliers.
- Use the agreement to set in place supplier relationship teams.

What are the methods and processes that are working well in applying a supply chain approach that extends across portfolios of programs or an entire enterprise? Where does this method create optimal gains?

- Supplier Relationship Management Teams
- Supplier “captains”
- Leverage number of suppliers – over-redundancy is not a strategy, while sole source may introduce unacceptable risk.

### Table 3

What are the organizational structure changes required to assure we make supply chain decisions that enable our organizations and industry to act with greater precision and speed?

- Incorporate suppliers into structure at earlier phases.
- More tightly integrate information systems into the extended program organization/structure.
- Where feasible, assess suppliers based on their involvement across the enterprise – not silo style, one program at a time.

What are the proven methods/processes to manage inventory to reduce investment and minimize surplus/excess risks — while also meeting fluctuating demand signals?

- Understand the supply chain – each player in terms of capacity, employment, financing, and investment.
- Incorporate group reviews and one-on-one reviews.
- Tighter integration and pairing function-to-function.

### Table 4

Please identify industry/government supply chain partnering strategies for successful foreign military sales campaigns.

- First-step: Understand the situation and barriers
  - Conflict materials
  - Import/Export/ITAR

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- Indirect and Direct offsets
- License consumption
- Internet shipping/security
- Denied party/screen
- Counterfeit parts
- Currency exchange
- Second step – Have a strategy to succeed with global partners/suppliers
  - Identify export variants
  - Assure tracking systems (logistic/goods move/consumption of license)
  - Organic sourcing
  - Development/survey
  - Streamline and rationalize multi-government regulations (U.S. /UK/AU – meet all regulator requirements but without over-burdening the “system”)
- Integrating supply chain levels into decisions requires
  - Improved visibility through supplier tiers
  - Common metrics
  - Adequate lead times
  - Understanding of cost/technology/schedule/performance at all levels
  - Early integration/active participation of supply chain
  - Agreed-upon communication model
- Acknowledge that an international supply chain adds complexity and complications, and prepare for this.
- Implement
  - Strong partnering agreements; where possible these are long-term agreements with incentives and shared risk.
  - Establish closed-loop process improvements.
  - Follow a multi-tier flow of risk/opportunities that is visible to all and easily tracked.
  - Measure and feed back on established rhythm of communication.

### Table 5

What roles do strategic/tactical forecasting and obsolescence management play in maintaining a healthy supply chain?

- We need to have a forecasting competency; it affects
  - Product delivery
  - Capital asset availability
  - Wall Street perceptions/investment
  - People – training, skills, stability.
- Foresight with regard to obsolescence also critical
  - Impacts technology insertion for both hardware and software;
  - Demands sound practices with regard to configuration management/mixed fleet/sustainment.

With regard to Undersecretary of Defense Kendall ‘s endorsement of Next-Generation Performance Based Logistics Strategies dated May 14, 2012 – how does industry adjust supply chain strategies to leverage this endorsement of PBL contracts?

- The need to assimilate best practices and lessons learned from European and Canadian acquisition strategies.
- Assure smart systems for data collection, analysis and forecasting.

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