Aviation Week Executive Roundtable:
Identifying Critical Issues for Supply Chain Executives

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Aviation Week convened its second Executive Roundtable designed for Supply Chain Executives in November. The Aviation Week Executive Roundtables are designed to bring together industry leaders in an open setting to identify issues, discuss plausible solutions and identify priority actions to move forward. The genesis is that in so doing, the group will guide individual and organizations toward actions that together improve performance across the aerospace and defense industry.

Sponsored by PwC, the roundtable drew attendees from BAE Systems, Boeing, Goodrich, Harris, Honeywell, Lockheed Martin, Northrop Grumman, Orbital Sciences Corporation, Pratt & Whitney, Raytheon, Rockwell Collins, Rolls-Royce, and United Launch Alliance.

During the course of the roundtable, the attendees discussed three key issues:

- While information technology has advanced supply chain performance, IT systems and management of these systems are still evolving.

- The increasing complexity of regulations and costs of compliance (additional staffing) have proved burdensome for the aerospace and defense industry, which has dealt with increased customer distrust and auditing.
- In a new type of business environment the make/buy decision has become cloudy. The supply chain function has too often been the recipient of this decision rather than a collaborative decision maker.

Senior supply chain executives stated a need for more two way interface systems (customer/supplier) and functionality from IT systems. Out of the box enterprise resource planning (ERP) systems have not worked well and have required customization, challenges remain in forecasting and ordering (translating customer demand to the supply base), and the management of legacy systems has also proven problematic.

Government requirements (i.e., DCAA) are significantly increasing proposal development and submission times. Large primes and first tier subcontractors struggle to have enough in-house experts to manage these requirements and have little visibility into their suppliers' compliance capability.

The make/buy decision has become complicated and the supply chain function has too often been excluded from this decision making process. The tendency to protect your own has sometimes caused in-house divisions (an increase in "must make"). Some companies are continuing to buy more from outside suppliers and indicated a preference for longer term, larger buys (5 year) versus single period ordering, as a means of demonstrating commitment to their supply base.

Roundtable participants also discussed how changes in the industry – dwindling investment by customers in new platforms and programs, a changing focus from new manufacturing to readiness and sustainment – are impacting their business.

IT Needs To Be Aligned With Supply Chain

Most A&D firms are continuing to make substantial investments in IT to drive integration of complex supply chains. Attendees discussed where they are seeing success, as well as the challenges that remain.

Successes:

- Communication of documentation
- Collaboration and monitoring of risk
- Management of data/financials

- Implementation of enterprise resource planning and manufacturing resource planning software (albeit with ERP customization required)
- Low dollar purchase order streamlining
- Improved functionality
- Multiple OEMs utilizing Exostar, a two way, web-based schedule/order vs. accept interface

Challenges:

- Need for accurate forecasting and ordering: Translating customer demand to supply base so suppliers can plan better
- Linkage between systems must be strengthened
- SAP implementation: Supplier interface and some needed functionality lacking, customization required
- Pulling requirements together
- Legacy plug ins/legacy systems that need to be retired
- Capacity management at sub-tiers
- Lack of necessary data warehouses
- Program-centric reporting requirements
- Accuracy of supplier metrics – OTD & PPM – leaves much to be desired. Reconciliation efforts usually required

Increased Regulation and Costs of Compliance Loom Large

There has been an increased focus on compliance and regulations (ITAR, EVMS, FCPS, DCAA, etc.) within the industry. With so much of the prime's performance dependent on complex supply chains with varying degrees of expertise in these areas, leaders must devise strategies to ensure adherence to these standards.

Actions considered:

- Single point person to deal with these standards: Program manager or single team
- Remove responsibility from subcontracts to indirect (shared services): Lawyers, ITAR experts
- Ensure that your suppliers take the same training you do
- Leaning towards domestic suppliers to remain in compliance
- Standard onboarding, training and retraining of staff

Contractors continue to struggle with:

- Complying with things they don't have visibility into
- Having enough in-house experts to manage government requirements
- Lack of customer trust: More government auditors in plants than ever

- Lack of visibility into suppliers' processes and systems: How to ensure suppliers are compliant
- Burnout among key compliance personnel
- Increased proposal development and submission times due to DCAA and other government requirements

Establishing Priorities in a Changing Environment

As the A&D industry adjusts to new base levels of business, more moderate growth and increasing uncertainty, roundtable participants considered what this means for decisions on make/buy, the structure of the supply chain, and criteria for success during the next 5-10 years. Attendees also discussed the challenges associated with a shifting focus from new manufacturing (less investment by customers in new platforms/programs) to readiness and sustainment.

Areas of emphasis moving forward:

- Working more collaboratively with customers
- Increased concentration on cost and schedule
- Higher performance demanded due to competition
- M&A
- Protecting intellectual property
- Strategic partner protection
- Utilizing shared services
- Developing new technology offerings to attract customers and program funding

Challenges associated with the shift from new manufacturing to readiness and sustainment:

- Government in-sourcing and the move away from third party logistics providers: How can the industry compete with its own customer?
- Transformation from production to services business model

Roundtable participants noted that future make/buy strategy has become cloudy, with some firms accelerating their buy from outside suppliers and others looking to do more in-house.

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