

WHITE PAPER

PREPARE NOW AND AVOID COSTS LATER

The winning strategy for your supply chain operations



ABOUT THE AUTHOR

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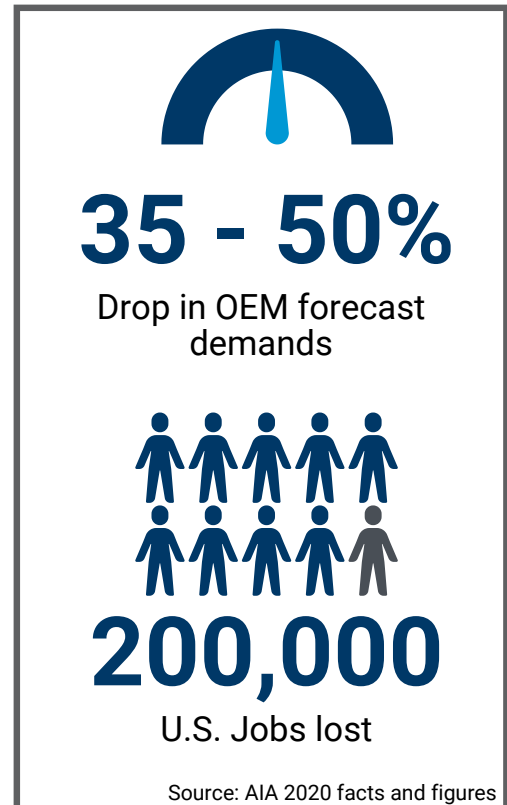
Gus is the Founder, CEO, and President of GMB Associates, LLC, which specializes in providing services to Fortune 500 technology companies and international governments in the areas of Business Transformation, Strategy Development & Execution.

Gus has over 30 years of experience in the aerospace and defense industry. Throughout his career, he has held various business and operations positions at Triumph, UTC Aerospace/Goodrich, Northrop-Grumman, and Boeing/Rockwell.



DOWNTURN IN DEMAND

According to the Aerospace Industry Associations (AIA) [2020 facts and figures](#), “the unprecedented crisis brought on by COVID-19 during 2020 continues to have a clear and significant impact on the aviation industry. The first half of 2020 saw one of the most dramatic changes experienced by the civil aviation industry in its century-long history.” These changes equated to a 35 to 50% reduction in original equipment manufacturer (OEM) forecast demands with some estimates of 220,000 aerospace jobs that were lost in the U.S. alone. These reduced forecast rates are expected to gradually increase over the next 3 to 5 years. According to Boeing, some aircraft platforms may not get back to 2019 pre-COVID-19 levels for some platforms, while others will return.



The demand for commercial air travel will continue to grow and create a need for new aircraft in the longer term. The rate of growth for these new aircraft is about a 4.0% to 4.3% yearly over the next 20 years. Boeing and Airbus are forecasting some 40,000 new aircraft deliveries over the next 20 years. These are all forecasts of pre-COVID-19 levels; however, the next few years still show a slow recovery and a decreased demand.

The shorter term decreased demand levels have been passed down into the supply chain, from the primes to OEM’s to the Tier 2 and 3 suppliers. The lower demands have and will continue to cause stress and challenges in the supply chain until the demand levels off during the recovery. Challenges and stress come in the form of excess inventory, lack of sales; thus, leading to financial pressure for many companies. For other companies that are dealing with COVID-19 cases and situations of “work from home” to care for children that are not back in school or elderly relatives, some companies are experiencing employee availability issues also.

SUPPLIER DELIVERY & FINANCIAL PERFORMANCE

During 2020, many suppliers struggled with two diverse subjects: a decrease in overall demand but conversely, needing to deliver on critical purchase order commitments. Owners needed to downsize due to lower demands and were also affected by employee absenteeism due to the direct or indirect impact of COVID-19. Where there was concern on deliveries, customers had to increase supplier surveillance and review their strategies related to supplier risk and resilience. Customer supply chain delivery assurance/expediting efforts increased overnight.

Many of the struggling suppliers have not revealed their true financial situation to their aerospace customers as they fear they would be replaced by suppliers with healthier balance sheets. Some aerospace customers are taking the opportunity to revisit make versus buy, especially given their objective to keep their workforces busy while achieving overhead absorption challenges. As a result, the industry will experience sub-tier supplier bankruptcies and liquidations suddenly, even though problems have been building for months in 2020. Will there be consolidations at that sub-tier level? Some are inevitable... Will the aerospace customers put in place supplier-surveillance efforts to look into the supply base and get early warning signals on the struggling (delivery performance and financial) suppliers? Now is the time to assess the supply base and validate supply chain commodity, category, and supplier strategies.

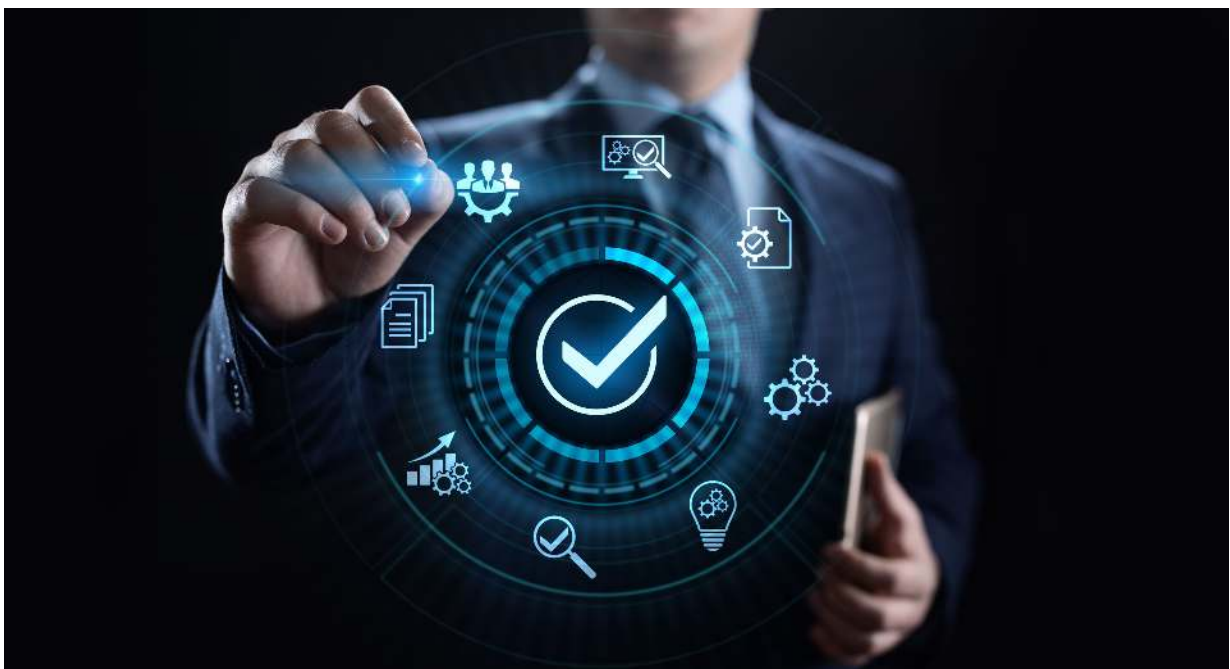
Additional delivery performance impacts related to Low-Cost Country sourcing suppliers have come from regional COVID-19 situations during the initial waves... will there be additional waves? Even where Low-Cost suppliers are performing, global delivery challenges have impacted product deliveries to manufacturing and assembly locations

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STRATEGY

Risk and resilience... Does your current strategy pass the stress test of risk and resilience? Will your strategy survive the next global pandemic or supply chain disruption? When the demand volumes return, will the suppliers survive the financial challenges, or will they have the manufacturing capacity? Having a balanced supply chain commodity, category, or supplier strategy is paramount to ensure material and product availability for operations ... the right and correct amount of inventory of materials delivered from the supply base.

A balanced strategy between supplier performance, quality, and cost are essential elements and a good foundation for long-term supply chain sustainability. Supplier performance metrics with supplier development activities (capability and capacity) are needed to continue to refine the strategy. Many companies rely on a “place and chase” operating model when placing a purchase order and chasing delivery requirements as a strategy. Short-term gains are offset with longer-term challenges. Long-term relationship building and forecast demand management are key factors to de-risking your supply chain. Supplier data and development drive a good strategy for commodities, category management, and suppliers. No one can predict the next global event, but a good, solid, and sound strategy can and will de-risk major impacts.



SUPPLIER DEVELOPMENT & DELIVERY ASSURANCE

Strategies are not developed overnight and forgotten, they need maintenance and modifications. Forecasts, demands, leadership, customers, designs, suppliers, and supplier ownership all change over time, thus the need to reassess and adjust the strategy. Supplier development is an essential part of ensuring the proactive alignment between supplier and customer requirements and needs. Investing in supplier development will reduce and prevent problems and challenges in the future. Ensuring the capability and capacity at the supplier will improve the probability of an acceptable product with on-time delivery. Often customers confuse Delivery Assurance and Supplier Development. Delivery Assurance is the reactive approach to acting on potentially late or late delivery. Both are important and are essential to maintaining a high-performance supply chain strategy and ecosystem. Supplier Development “prepare and pay me now” will prevent and reduce the Delivery Assurance added costs and the “pay me later” results.

The cost of disruption is usually underestimated, often less emphasis is given and therefore more costs are realized downstream at the material late-delivery point. What is the true cost of disruption due to late materials? High-performing and world-class supply chain best practices utilize third-party companies, to provide [supplier development](#) and [delivery assurance services](#) at a lower overall landed cost versus customer in-house services. Localized third-party support, versus customer provided personnel and travel expenses are the trades that are evaluated and compared. Third-party outsourced localized support is typically cost and time effective, with an established strategy and clearly defined objectives.



ENABLE, ENGAGE, AND EXECUTE

With the support of third-party supply chain service partners, companies can:

- Enable a supply chain strategy
- Engage the entire supply chain from customer forecast to inventory and demand management
- Execute an efficient and resilient supply chain

These situations are judged and measured on how well the supply chain reacts to challenges and situations that come up versus normal operations of placing and chasing purchase orders. When we look at history, whether it is 2002 SARS, 2004 Sumatra Indonesia Tsunami, 2011 Fukushima Nuclear, or COVID-19, we will experience unforeseen and unfortunate events. Supply chain strategy, preparation, risk, and resilience will mitigate the overall supply chain, operational and financial impacts.

Prepare now and avoid costs later!

Global Partner Solutions can support you with your [Supplier Development and Supplier Recovery & Delivery Assurance](#). Learn more by visiting our [website](#)!

