

Twelve considerations for suppliers to profitably produce sensitive mission program products with asymmetrical demand

Aerospace and defense firms are challenged to profitably deliver sensitive mission program requirements

Sensitive mission programs require highly customized and quick-turnaround defense technologies to fulfill increasingly complex and time-sensitive mission needs. This reality creates a demanding innovation environment that challenges the industry to remain inventive and profitable, while only producing a limited number of product quantities.

When supporting sensitive mission programs, aerospace and defense companies should identify key considerations that can enable them to profitably grow in a defense market segment with asymmetrical/atypical demand.

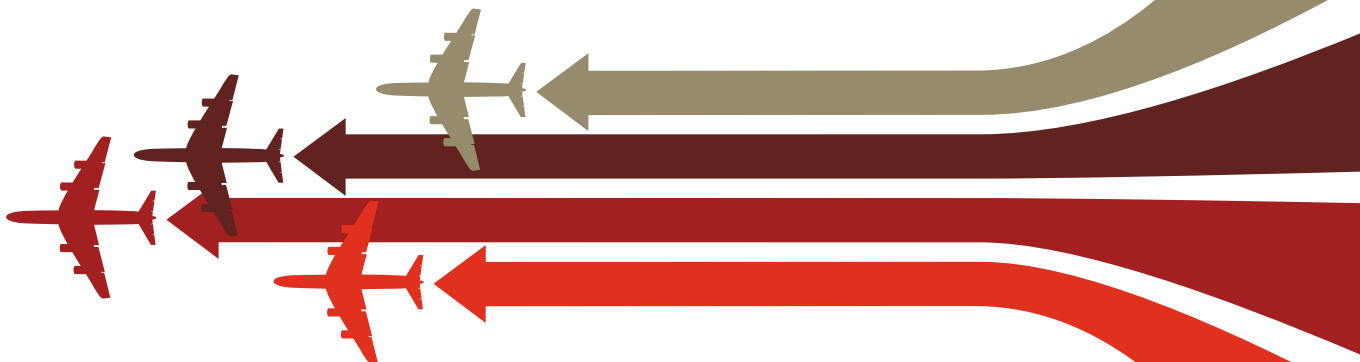
Below is a list of 12 opportunities that commercial organizations can pursue to profitably fulfill sensitive mission program requirements:

- 1 Understand and accommodate the customer's unique operating environment.** Customer intimacy and knowledge in this environment is critical. Typically, the buyer for new technologies is not the end user. Firms that gain a deeper understanding and appreciation for the end user's operating environment often recognize broader and more effective opportunities to deliver value and increase revenue.
- 2 Validate requirements.** Sensitive mission program requirements are typically based on a preconceived solution or design. However, the preconceived solution often fails to fully consider latest technological opportunities or the "art of the possible." Accordingly, suppliers can urge respective customers to define problem statements first, and jointly work with the customer to define a solution and associated requirements. Incorporating the supplier with the customer to jointly define a solution offers revenue opportunities from development services, ensures all technological capabilities are considered, and potentially decreases costs as suppliers can further utilize existing technologies and production capabilities.
- 3 Approach sensitive mission programs as a market.** Most successful firms that support sensitive mission programs consider it a consolidated market, rather than a host of distinct customers with one-off requirements. Accordingly, successful firms effectively drive synergies across programs and realize growth through deliberate market attack plans and stakeholder management.

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Sensitive mission programs can be a profitable market segment

- 4 Effectively utilize the inherent market barriers to entry.** Due to the inherent resource and organizational barriers to market entry associated with sensitive mission programs, relatively few firms can provide support across the entire market. As a result, those firms that can access the market should pursue broad growth opportunities to fulfill market needs, such as engineering expertise, sustainment services, and product delivery, in addition to product development.
- 5 Identify and leverage common mission needs across programs.** Although sensitive mission programs are traditionally siloed, increased efforts are underway to identify and share information and resources across programs with similar problems, requirement sets, and organizations. Select suppliers can seek out, and request participation in, the respective information-sharing forums to identify additional revenue opportunities.
- 6 Properly manage intellectual property.** Alternative contract terms and conditions are often available in sensitive mission programs to provide the government with access to a broader set of commercial vendors. Suppliers can potentially utilize the terms and conditions to own intellectual property and support subsequent product commercialization.
- 7 Strive to commercialize innovations.** Products developed for sensitive mission programs often possess commercial applicability. A key enabler to product commercialization is a deliberate product portfolio plan that identifies which technological capabilities can be openly shared and which capabilities are not shareable. Suppliers can utilize a product portfolio plan to identify additional sales opportunities in commercial markets for traditionally low-demand products.
- 8 Seek to manage and optimize the end-to-end supply chain.** “Cradle to grave” product support is often provided by several suppliers. As a result, inefficiencies can be created as more suppliers are involved. When possible, firms can seek to remove inefficiencies (leading to higher profits) through increased supply chain ownership, management, and coordination with the broader supply base.
- 9 Pursue alternative service offerings.** In addition to technology production, other services are often required to fulfill the mission. Suppliers can consider full-service offerings that incorporate operations and maintenance of the end-technology to increase their market footprint and revenues.



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- 10 Fully and properly allocate cost.** Not all solutions developed for the customer have commercial applicability. For true one-off requirements, the customer will pay for all costs associated with requirements fulfillment. Accordingly, suppliers should utilize a robust cost allocation model to identify and recoup all costs from R&D through production.
- 11 Pursue a postponement purchasing strategy.** Demand fluctuations (particularly negative trends) associated with sensitive mission programs can penalize firms for holding inventory, more so than in other industries. Firms that postpone inventory buys typically realize more product improvements, avoid defects, and avoid costs through more accurate demand models.
- 12 Delay customization until the latest point possible.** To the degree possible, successful firms utilize common platforms and production. Product customization occurs at the latest point in time to enable further requirements refinement and efficiently utilize existing capabilities.

How PwC can help

To have a deeper discussion on sensitive mission program and supply chain, please contact a member of PwC's A&D team:

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