

THOUGHTS ON AEROSPACE SUPPLY CHAIN MATTERS

In recent times there appears to have been a huge increase on the demands that the aerospace industry is making on its traditional supply chain. The Primes have over many years rationalised and reduced their own listed supplier base to reduce their purchasing costs and placed far greater emphasis on the role and responsibility for supply chain management, integration and kitting on to their tier one suppliers.

This flow down of responsibilities onto the tier one companies, and the increased demand for manufacturing capacity within the aerospace and defence industries is now beginning to throw sharp focus on to the capacity problems beginning to be faced by the traditional tier two suppliers, some of whom used to deliver direct to the primes, but no longer do so.

With the current emphasis today on reducing manufacturing lead times, scrap and inventory by adopting modern lean and agile manufacturing techniques to reduce and cut out waste and improve overall manufacturing performance, there appears to be a growing problem in the tier two supplier base's ability to adopt, install and embed these new techniques whilst still continuing to achieve their existing output capability and source of day to day revenue.

Since the glory days of the end of the last century, most supplier companies have had to take a cold hard look at how their businesses are run, reduce the head count, cut costs wherever possible and work smarter as well as harder. For many it has been a hard struggle to make sufficient profits to provide enough capital to reinvest into the business by way of purchasing modern efficient and productive, state of the art, machinery and processes.

A credible succession policy is also becoming a problem for many smaller companies as their owners and managers approach and reach retirement age, become more reluctant to adopt change or take risk and adopt a "we'll carry on for as long as we can" strategy. Over the past twenty five years or so fewer and fewer clever and skilled technicians have entered into, let alone completed, apprenticeships in manufacturing industry resulting in a severe skills shortage which will affect us for years to come.

Skilled economic migrants from the EU accession countries, and elsewhere, will no doubt, fill some of this skills shortage in the shorter term and it is ironic that many major companies are currently setting up manufacturing bases in these very accession countries for the purpose of achieving lower wage costs whilst the inhabitants of these countries are departing at a good rate of knots in our direction to achieve the much higher high pay rates and standard of living which we can offer. I know because we employ some of them! In the

1960s we used to call it the “Brain Drain” when any graduate with skills, left for the USA immediately on graduation to avail himself of much improved pay and standard of living.

So am I pessimistic about the future of my industry? No, certainly not. However I do see a considerable consolidation occurring within the existing tier two aerospace supply chain, which can only be a sensible solution. This consolidation occurred many years ago amongst the major aerospace and defence players into the far larger groupings which exist today and which will continue.

From my perception, this is happening now within the tier one groups and natural flow down will dictate that the same will occur within the tier two players otherwise we shall never fully realise the potential and fully utilise the skills base which still exist within this grouping. True economies of scale could also be achieved were this to take place.

Maybe this will be kick started by the need for smaller companies to band together to form alliances to bid on, and take responsibility for, larger purchasing contracts for which no single company could bid on its own as no single company possesses all the capability necessary to complete the contract within its own resources. I do believe that this already happens within structures such as the North West Aerospace Alliance and no doubt something similar will take place within the Midlands Aerospace Alliance in due course, if it isn't happening already.

Consolidation amongst tier two groups may also take place by acquisition of smaller weaker companies, whose owners and managers are ready for retirement, by stronger companies with more aggressive, go-ahead and far seeing management with strategies for growth. Such companies will most likely have much better access to capital sources to fund their growth strategies, and technologies for improvements in work practices and processes.

There is nothing new in all of this, it is just the normal process of life from generation to generation which brings with it progress, innovation and hopefully a better future and standard of living for all but particularly for those with the courage and resource to seize the opportunities as they arise.

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