

Supply Chain 2009
3rd Annual NASA Supply Chain Quality Assurance Conference
Managing Mission Success

Supply Chain Management Challenges & Opportunities

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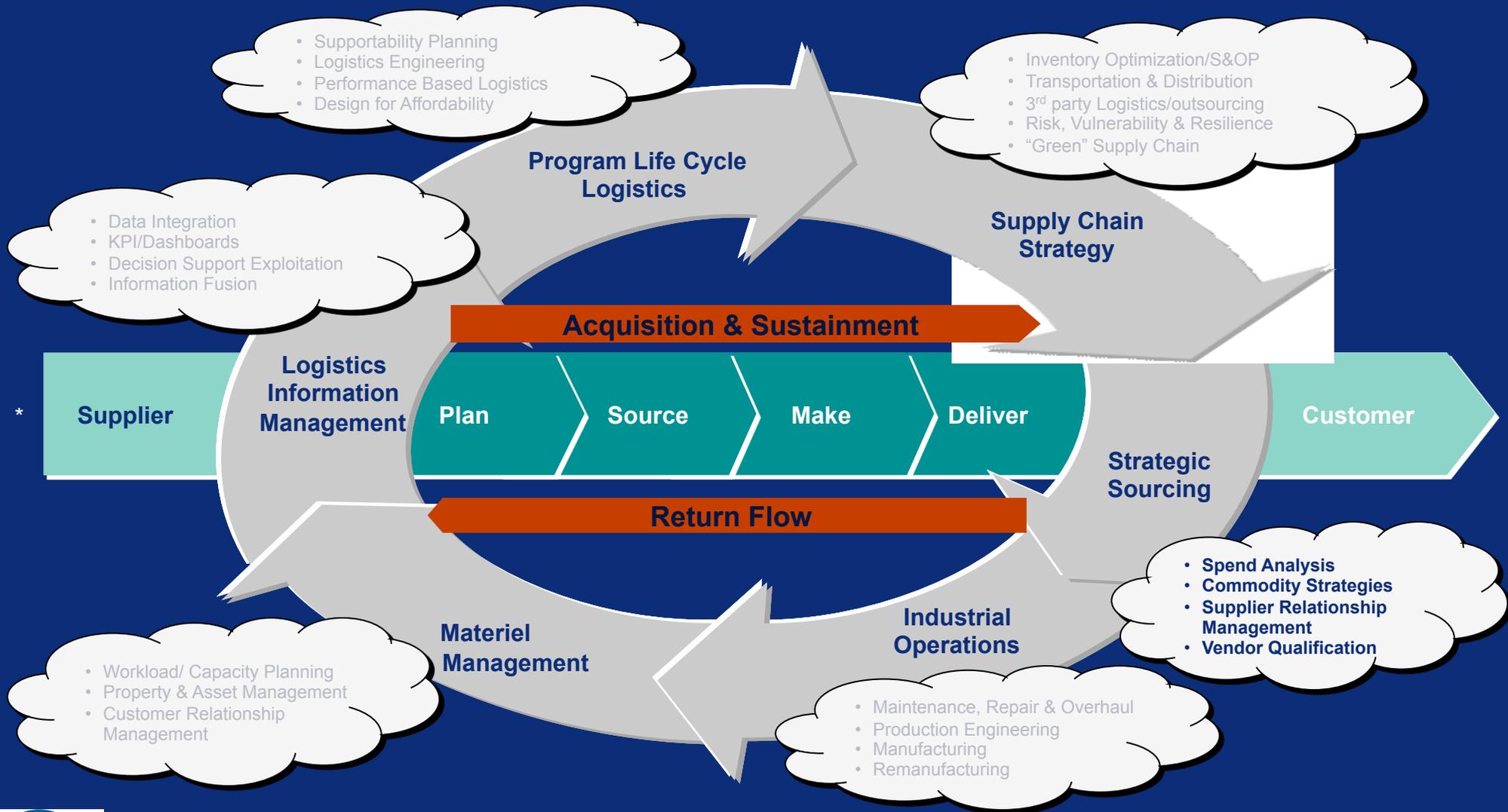
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Discussion Topics

- ▶ **Overview of Supply Chain Challenges and Opportunities**
- ▶ Our Perspective on Strategic Sourcing
- ▶ Strategic Sourcing Pitfalls and Best Practices
- ▶ Key Messages and Takeaways



There are six key competencies that allow organizations to optimize their supply chain management operations



* Supply Chain Operations Reference-model (SCOR) is the product of the Supply Chain Council, Inc. (SCC), an independent, not-for-profit, global corporation with membership open to all companies and organizations interested in applying and advancing the state-of-the-art in supply chain management systems and practices.

Many Public Sector agencies have begun to meet their supply chain challenges and are realizing improvements in both mission effectiveness and efficiency

Typical Challenges	Opportunities
<ul style="list-style-type: none"> ▶ Productive and reliable supply chain operations ▶ Highly responsive and agile supply chain networks to meet “customer” demands ▶ Efficient and cost-effective supply chains that respond to budgetary pressures 	<ul style="list-style-type: none"> ▶ Rationalization of the supply base and increasing emphasis on how to work more effectively with the most critical suppliers ▶ Leveraging suppliers for their abilities to deliver innovative solutions rather than just products/materials ▶ Better understanding of end user requirements so that “tailored” supply chain strategies can be developed ▶ Increased use of analytic models to balance supply chain trade-offs ▶ Institutionalization of cross-functional decision-making and supporting processes ▶ Development of key performance metrics to drive continuous improvement ▶ Consideration of sustainability and “green logistics” issues (e.g., CO2 emissions reductions, carbon footprinting) ▶ Management of supply chain risk through development of resilience/mitigation strategies



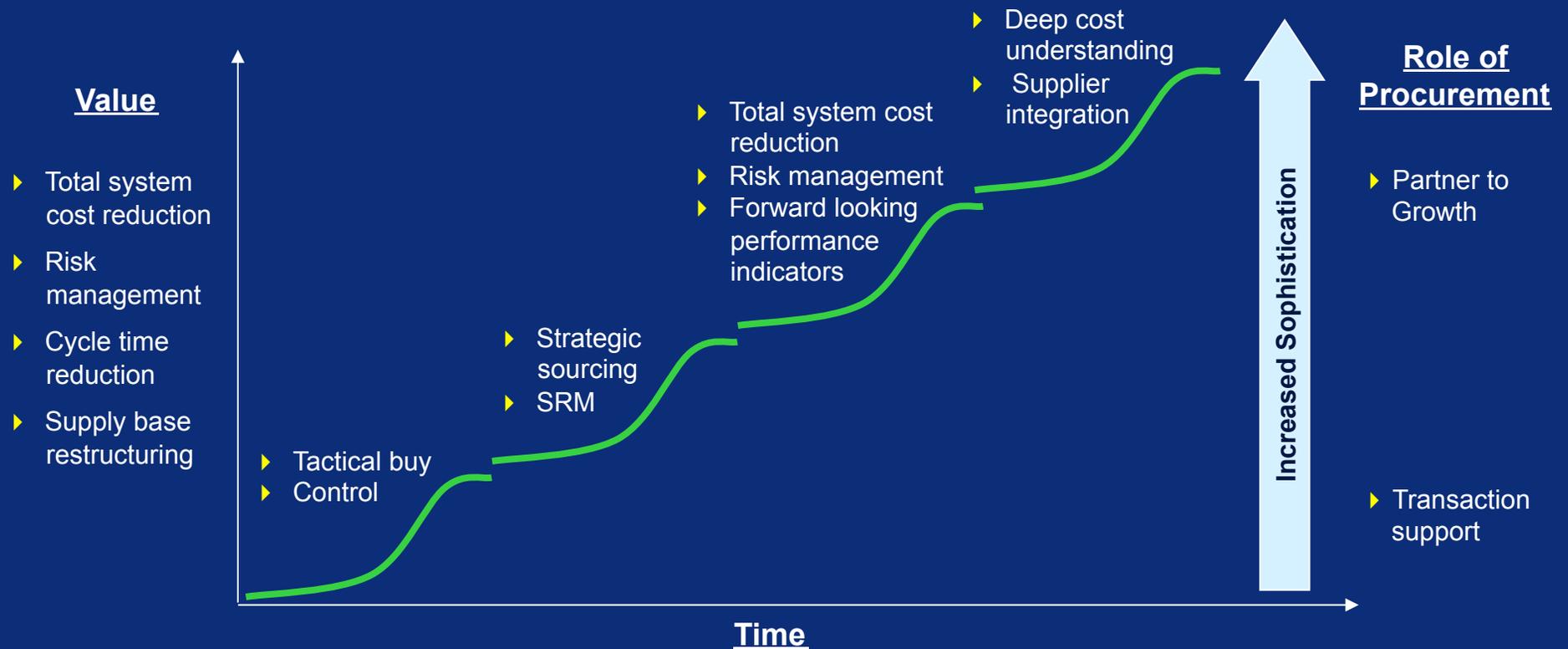
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Procurement has evolved from tactical low value add to a strategic value added function over the last 15 years

Procurement Evolvment



Why strategic sourcing makes sense in the Public Sector

Need to Improve Performance

- ▶ Ongoing budget pressures
- ▶ Increasing demand from constituents for improved quality and responsiveness of service
- ▶ Office of Management and Budget mandate (May, 2005)
- ▶ Third-party spend is large element of the cost structure
- ▶ Realization of significant savings (10-25%+) in the commercial sector

Reducing external spend and improving supplier value delivery are major levers on mission performance

Opportunities for Breakthrough Performance Improvement

- ▶ Lack of visibility of and ability to manage spend (who is buying what from whom and how?)
- ▶ Fragmentation of spend (across buyers and suppliers)
- ▶ Inconsistent and inefficient buying processes and technologies
- ▶ Lack of performance based contracts and effective contract and supplier management

Strategic Sourcing is a well proven and recognized approach to closing these performance gaps



Strategic Sourcing and NASA

- ▶ In November 2005, NASA joined in the Strategic Sourcing Initiative, a multi-agency initiative GSA and the Department of Treasury launched the Federal Strategic Sourcing Initiative
 - The goals of the Initiative are to: (1) Reduce prices and administrative costs, (2) Optimize performance and business acumen, and (3) Increase achievement of socioeconomic goals
 - All participating agencies must provide an annual status of strategic sourcing initiatives to OMB.
- ▶ Approximately 88% of NASA's budget is expended through procurement of goods and services from private firms, educational institutions, non-profit organizations, government agencies or foreign sources.



Strategic sourcing can generate significant levels of savings across the product categories that NASA has targeted

Area*	Category*	Cost Savings**
Information Technology	Software	15-25%
	Computing hardware	2-5%
	Network	2-5%
	IT services	8-13%
	Peripherals	2-5%
Financial, Corporate & Employee Supplies and Services	Services	10-25%
	Contract closeouts	10-25%
	Bankcard services	5-10%
	Training and education	2-5%
	Office supplies	15-40%
Site Services	Relocation and transportation services	5-20%
	Facility services and equipment	5-10%
	Protective services	10-20%

* Sheryl Goddard, NASA HQ Office of Procurement, "What's Hot at NASA HQ" October 2008

** Booz Allen Experience Database

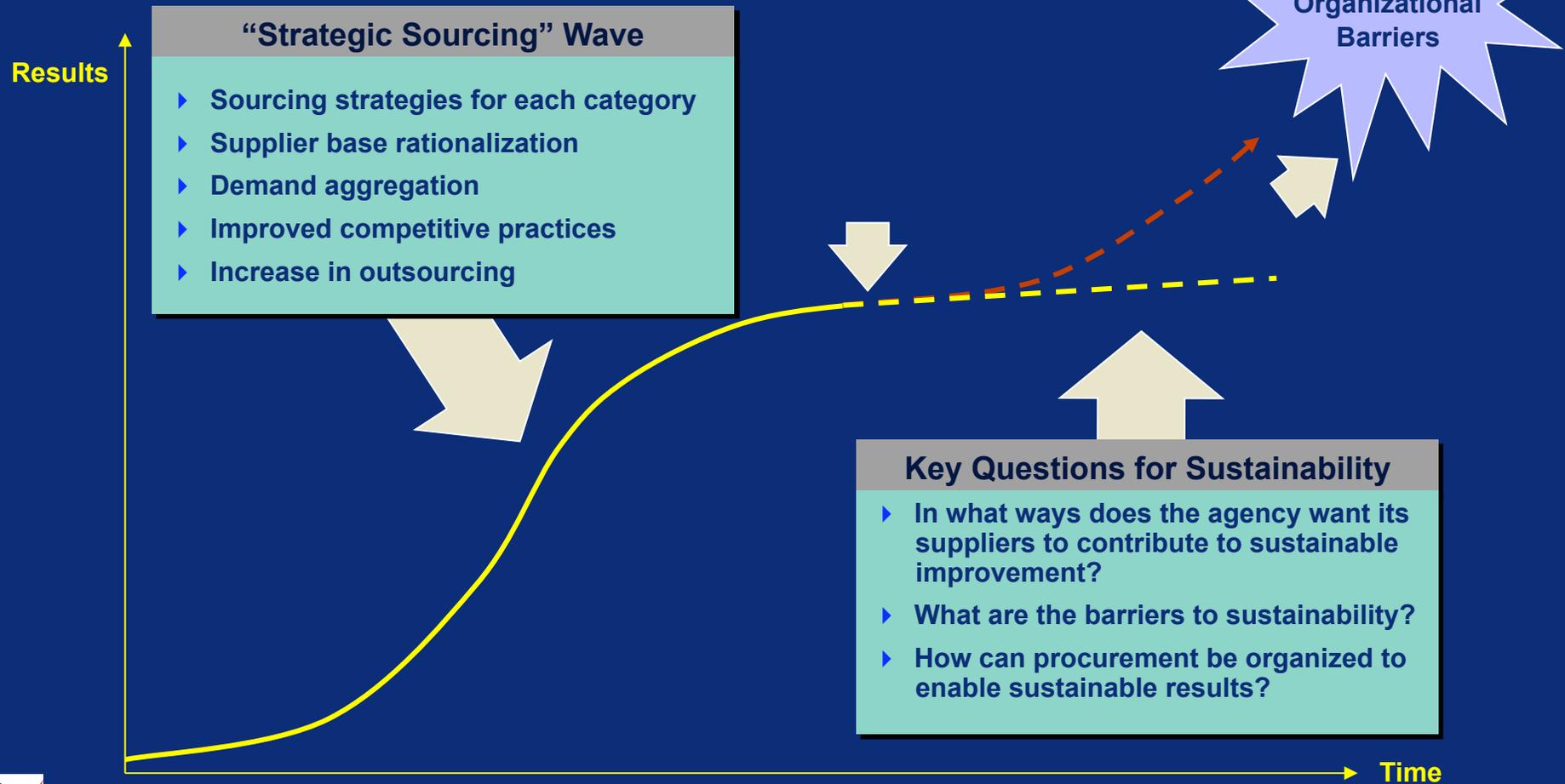


Recent NASA Sourcing Activities

- ▶ A June 2009 Broad Agency Announcement for a Constellation Ground Operations Commodities Architecture Study focused on the identification of new and innovative approaches to meeting commodity demands of the future while minimizing combined development and operations costs.
- ▶ The commodity (cryogenic fluids) demands for the Constellation Program architecture far exceed the current capacities available at KSC.
 - Architecture requires the launch of both a manned vehicle (Ares I) as well as a heavy lift vehicle (Ares V) within a short time of one another.
 - Dual launch scenario drives the requirement to perform multiple launch attempts in rapid succession.
 - Expendable launch vehicle programs that launch from the Cape Canaveral Air Force Station (CCAFS) as well as other KSC customers will also require the same commodities from the existing infrastructure.
- ▶ GOP/KSC is interested in a technical analysis of concepts for producing the commodities on-site vs. concepts for transporting and storing them.



While many agencies have begun to achieve significant procurement results in recent years, many are finding the momentum hard to sustain

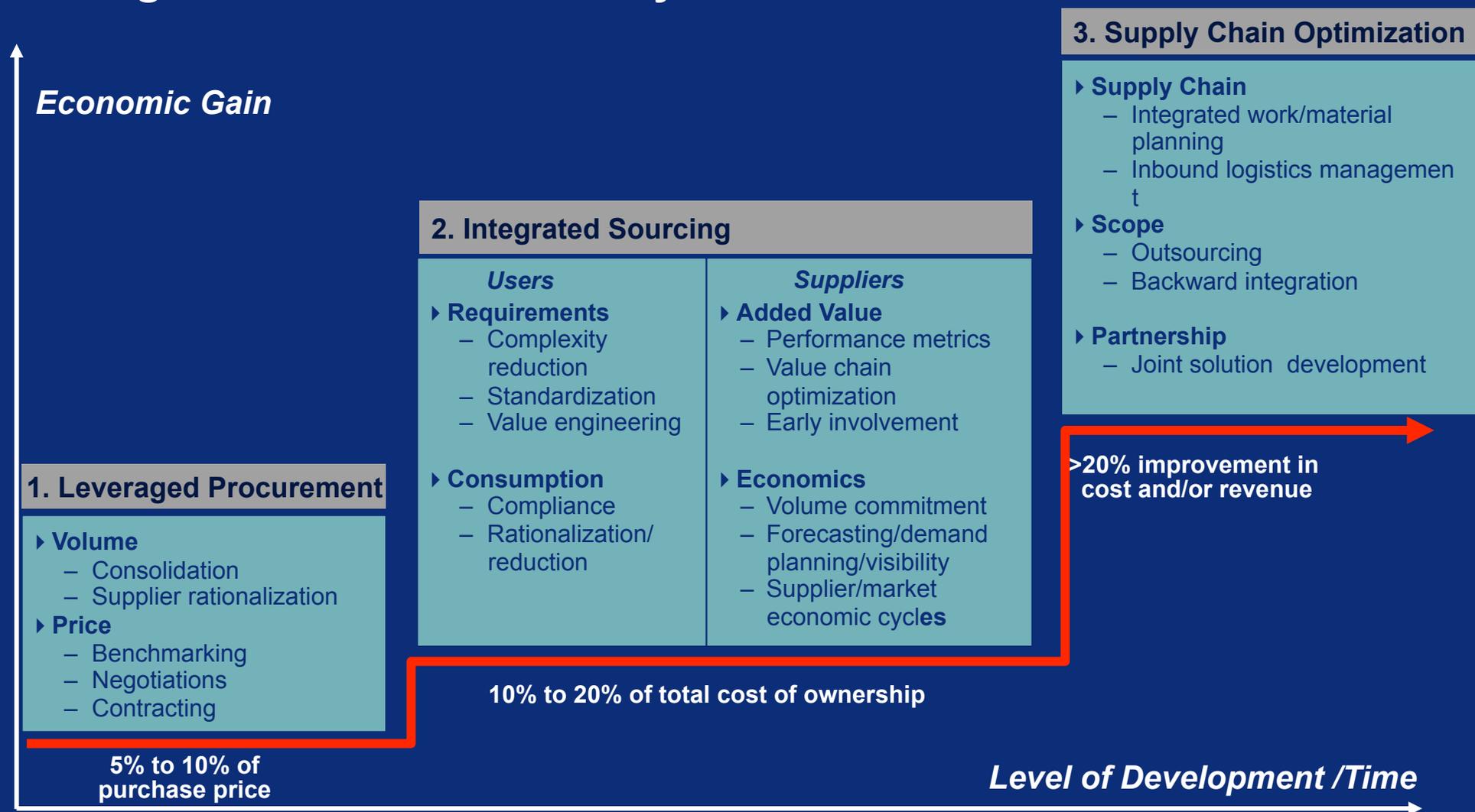


Our approach to achieve sustainable savings

- ▶ **Get the facts needed to enable good decisions**
 - Spend data cleanup and analysis
 - Analytical tools and business intelligence
 - Build the economic and political case for change
- ▶ **Optimize supplier contracts and relationships for best mission value**
 - Determine current and future role of suppliers in mission effectiveness
 - Segment suppliers and management approaches based on value contribution
 - Develop, negotiate, execute and manage new “Strategic Sourcing” agreements
- ▶ **Build internal capabilities to sustain and enhance benefits over time**
 - Ensure alignment of supply management strategy with mission imperatives
 - Employ process, technology and organization designs that sustain benefits
 - Establish an environment that necessitates learning and continuous improvement



Performance Improvements – economic gains can be achieved by tailoring a series of levers to key commodities



Capability Development – sustaining and growing value over time requires a robust sourcing capability

Leadership



- Senior sponsorship
- Organizational positioning
- Category scope of Procurement
- Procurement management development

Capability Development Framework



Structure

Structures and interfaces



Levels



- Centralized and decentralized responsibilities
- Process leadership
- Cross functional team responsibilities
- Focused sourcing activities

Process and e-tools



- Tailored sourcing best practices
- Linkage with user and supplier processes
- Technology leverage
- Interaction among business units

Performance Metrics



- Annual planning/targets
- Budgeting process linkage
- Linked performance incentives (procurement, users, suppliers)

Skill Building

- Balance of category, teaming and analytical skills
- Credibility with user community
- Culture change and alignment



Why it works

Apply Systematic Approaches

- ▶ Apply “best practice” buying processes
 - Supply base consolidation
 - Global sourcing
 - Specification optimization
 - Demand management
- ▶ Bring fact-based analyses
 - Cost trends vs. indices
 - Benchmarks and best practices
 - Supplier profitability
- ▶ Implement processes that support continuous improvement (e.g., on-line catalogs)

Mobilize the Organization

- ▶ Train buyers and Purchasing Managers to think and work differently
- ▶ Engage the participation of suppliers
- ▶ Break down organizational “silos”
- ▶ Provide incentives for strong performers
 - Purchasing staff
 - Suppliers
- ▶ Embed process and organizational changes

Results Orientation

- ▶ Set achievable but stretch targets
- ▶ Measure and communicate the results
- ▶ Implement tools for ongoing compliance and performance management



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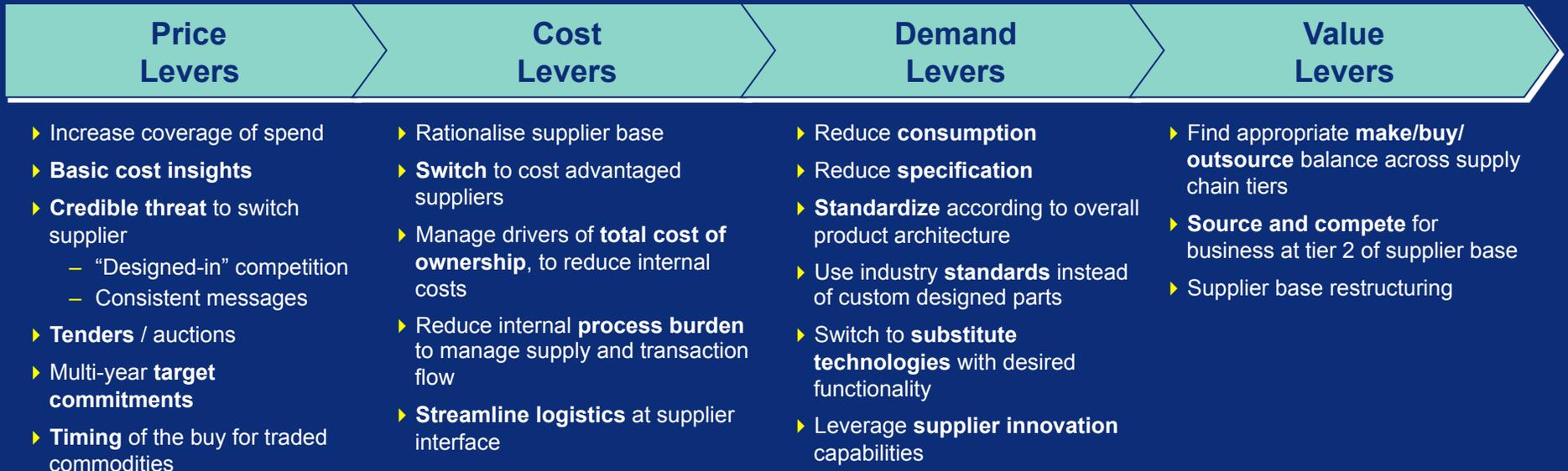
Many acquisition/sourcing organizations are not involved early enough in the acquisition process and share many of the following characteristics

- ▶ Lack of time or skills to participate in the early stages of the acquisition process
- ▶ A significant amount of the procurement group's time and attention is spent expediting
- ▶ Lifecycle product management issues
- ▶ Lack of commonality across generations of equipment
- ▶ Design/qualification/approval process provides little sourcing rigor and little standardization
- ▶ Lack of consistent supplier performance tracking
- ▶ Fragmented contracting/buying process that is indicative of a lack of strategic **performance** focus

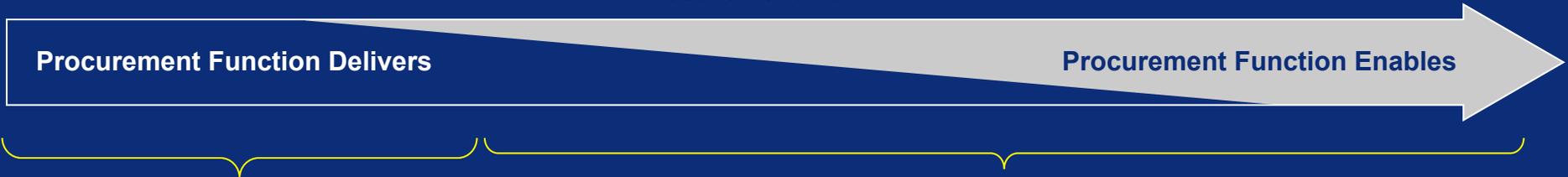


Internally, best practice companies are broadening the traditional procurement role

Procurement Value Levers



Procurement Role



“Traditional” supplier-facing procurement role

“Non-traditional” skills increasingly required to influence internal stakeholders

3-5% opportunity ± commodity price movements + value of growth

8-25% opportunity over 6-24 month time horizon



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Key Messages and Takeaways

- ▶ Since the early 1990s, Strategic Sourcing has evolved and successfully been employed to differing degrees by many companies – yet the momentum is tough to sustain
- ▶ To truly ‘move the needle’, procurement organizations need to align both external and internal value levers
 - Optimization of end-to-end total economics to unlock savings potential
 - Continuous upgrade of procurement capabilities
 - Tight integration across functions and regions
- ▶ Going forward, data systems, capabilities and relationships will be key enablers to ensuring agility and responsiveness to address evolving business and market demands
- ▶ Procurement must continually seek ways to overcome existing and new challenges – as well as to embrace internal and external best practices
- ▶ While there is no ‘one size fits all’ answer to procurement next steps, it is imperative that strategic tradeoffs be assessed to determine how best to deliver sustainable value



Questions?

