

*Reminder: Our blog articles are neither sponsored, sanctioned, nor endorsed by The Raytheon Company nor any of our clientele.*

From time to time we like to remind readers that even the most compliant cost accounting and contract management means little if the firm's portfolio of projects is executing poorly. Who cares about FAR and CAS if your project/program is behind schedule, over budget, and missing key quality and technical specifications? Companies that fail to focus on executing the project/programs they have quickly find that it's difficult to win new work, and when new work dries up even the accountants need to find new employment. Every back-office bean-counter needs to remember that it is the programs that keep people employed.

Once upon a time we were part of a dedicated group focused on examining effective project/program management, and two truisms emerged from our time with that group:

1.

The current environment in which aerospace/defense programs are being executed is significantly different from the environment in which such programs used to be executed during the Cold War and the Space Race.

2.

Many A&D companies—perhaps the vast majority of companies—not only have failed to make the necessary management changes to address the impact of the changed execution environment, they have failed to recognize the significance of the changes.

One of the environmental changes with the most impact to program execution is that the execution of the project/program has migrated from personnel employed by the prime contractor to personnel employed by first-tier (and lower tier) subcontractors. Thus: the line between project/program management and subcontractor/supplier management has blurred and it may be accurate to say that the distinction no longer matters. We would go farther and say that continuing to make that distinction may actually be counterproductive to effective project/program management.

So, if project/program execution is important, then so is subcontractor/supplier management. In fact, one of the other truisms we learned during our time looking at the issue is that supply chain management may well be *the key to program execution success*. Which is why we are interested in how companies are transforming their historic supply chain management practices to address issues in the current project/program management environment.

To that end, we've published several blog articles on the topic. Use of our site's search function will lead interested readers to those other articles. About six months ago we [discussed](#) the problems Lockheed Martin was dealing with on its THAAD program for the U.S. Missile Defense Agency, and contrasted those problems with the success of Raytheon in winning the Small Diameter Bomb Increment II competitive award.

With respect to Lockheed Martin's woes, we wrote the following—

Program quality and execution risk *cannot* be transferred to suppliers. The prime contractor is responsible to the customer for the program. *Period.*  
If your attorney counsels otherwise, you should hire another attorney. If your subcontract manager or buyer or procurement specialist tells you that cost or schedule or quality or performance risk has been controlled by pushing it downwards in the supply chain, you should put a better support team in place.

Because you cannot build a wall between team members on a program; you cannot say, 'This is your responsibility and this is my responsibility.' You cannot transfer risk; the most you can do is to share it. The more that design information and risk information is shared, and communicated, and managed as a team, the better the outcome. When you treat your suppliers as individual entities that succeed, or fail, on their own, then you will always suboptimize your outcome. That is axiomatic. It is a nearly inviolate law of 21<sup>st</sup> century program management.

## Raytheon Builds on Supply Chain Management Successes

Written by Nick Sanders  
Monday, 04 April 2011 00:00

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As Lockheed Martin learned to its chagrin.

With respect to Raytheon's success, we wrote the following—

... Raytheon invested in its supply chain and worked with its suppliers *in a partnership* to develop common processes and align approaches.

This is how it is done, folks. This is how you build a program team that shares risks and responsibilities, as opposed to an adversarial team where the overall program objectives are sublimated to the needs of the individual business entity.

Well, now we're back with another story about Raytheon's supply chain management philosophy. We don't focus on Raytheon because we know the company; we focus on Raytheon because what's happening there represents a tangible implementation of the philosophy we have espoused for years. And it's working for them.

Here's a recent [IndustryWeek article](#) that discussed Raytheon's supply chain philosophy. It talked about a recent "strategic sourcing initiative" that focuses on common procurement of certain commodities across all the company's businesses. The article made it seem like that's some kind of innovative thinking when, quite candidly, it's old-school. In fact, we noted in [an article](#) on "real acquisition reform" that if the U.S. Department of Defense were to implement centralized strategic sourcing and management for acquisition of its titanium, it could save between \$100 and \$300 million each year. So Raytheon's preoccupation with centralized procurement and strategic sourcing was just not that interesting to us.

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But what was interesting to us was what Raytheon says it want to do with its smaller number of strategic suppliers. The article said—

Eventually, the company plans to consolidate its supply base so it's using a smaller number of key suppliers to purchase commodities. With a smaller, more focused supply base ... Raytheon will be able to set expectations on performance and improve enforcement of requirements.

As Raytheon selects key suppliers, the company will share its technology roadmaps with them so all parties are aligned on systems and business plans. Raytheon will provide suppliers with extended inventory visibility by allowing them access to its material requirements planning system. In turn, Raytheon will gain improved visibility to supplier risk issues so it can proactively mitigate potential snags. The company also will increase its use of supplier-managed inventory in the process....

Now *that's* cutting-edge supply chain management, in our view.

Raytheon is not simply cutting down the number of suppliers it uses solely to leverage buying power to obtain better prices. Clearly, it's also seeking to *partner* with its suppliers, in order to enhance project/program performance. It's going to share technology roadmaps to create synergies in research and development spending. It's going to give its suppliers access to its internal MRP system so that delivery timing can be improved. And in turn, it's going to seek to “gain improved visibility” into “supplier risk issues” so that it can “proactively mitigate potential snags.”

That, gentle readers, is how it's done.

But before we move on, let's note another article on “[supply chain transformation](#)” authored by the respected Gartner Group. (Note that the Gartner Group site has a .pdf file download that

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is the meat of their thinking.) Looking at the article and .pdf file, we noted the following (quoted) points for your consideration:

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[Raytheon] has a process to align engineering and supplier technology road maps, teams focused on reducing product and service complexity, and council-driven collaboration that aligns learning, technology, compliance and import/export requirements. A strong governance process, with steering committees, helps ensure this cross-functional alignment.

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Raytheon has embedded members of its supply chain team at the earliest stages of the bidding process to ensure synchronization between what is promised and the capability to deliver it. Its integrated product development process has multiple gates commonly found across manufacturing. However, Raytheon has achieved a level of supply chain involvement that expands beyond mere participation to influencing designs that shape demand and mitigate risk.

Finally, the Gartner Group brochure quotes Bill Swanson, Raytheon's CEO, as saying the following—

*"Raytheon's supply chain is quickly becoming a competitive differentiator and strategic advantage for the company. It is an integral part of our focus on delivering strong operating performance for our shareholders and the best value for our customers. Initiatives such as our center-led and cross-functional approach to supplier selection and centralized procurement enable Raytheon to maximize supplier-partner relationships while minimizing variation and risk in our supply base. In addition, an enterprise services approach harnesses the collective strength of Raytheon efficiently while at the same time moving us forward with speed and agility."*

Okay, we can all dispense with the flowery advertising language. But when you look at Raytheon's win rate and improved project/program execution, we bet you'll have to agree that there's something happening over at that company.

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Something pretty special.