

# ICAP CONSOLIDATED INDUSTRY REPORT

**SCOTT SELLE**

**April 8, 2015**

## ICAP Sector Leadership

- Jim Brandt; Propellants & Explosives – Oct 2014
  - Accepting nominations
- Eric Ellis; Fuses, Systems, Electronics, Sensors – Oct 2014
  - Todd Anderson, Amtec, nominated
- Paul Heidenreich; Large Caliber & Bombs – Apr 2015
  - Paul Izzo, American Ordnance nominated
- Kevin McDonald; Demil – Apr 2015
- Kent Holiday; Small & Medium Cal Ammo – Oct 2016
- Todd Hayes; GOCOs – Oct 2015
- Tom Rudy; Warheads & Rockets – Oct 2016
- Bill Stewart; Pyrotechnics – Oct 2016

## **Feedback Requested: Industry Response to Defense Budget Outlook**

- Expect ammo procurements / shipments to be relatively flat for the next few years in spite of budget trend upwards
  - Delayed procurements have adverse impact
- Further industry consolidations expected (Orbital/ATK; GD-ATP + GD-OTS, L-3 consolidates two remaining fuze businesses under FOS umbrella)
- Cost reductions >> census reductions and footprint rationalization
- Ammunition enterprise committed to Lean Manufacturing

## **Feedback Requested: Industry Response to Defense Budget Outlook**

- USAF up and Army down in ammo outlook?
  - Precision weapons development taking significant bulk of munitions funding (i.e. PGK) formerly allocated to artillery fuzing
- Difficult to justify necessary capital expenditures in environment of overcapacity and lower volume
- Difficult to attract investment on flat to declining sales with flat to declining profits
- Delays in procurements are especially challenging
  - Multiple root causes, including industry performance
  - Industry is committed to improving responsiveness >> speed

## **Feedback Requested: Industry Response to Defense Budget Outlook**

- Perception that big IDIQ's may be awarded dual source as a price reduction strategy rather than a risk reduction strategy when, in some cases, second source may not be technically capable of fulfilling requirements
- Concern that specialty sub-suppliers may fall through cracks of efforts to mitigate risk and sustain supply chain
- Encouraging to see renewed emphasis on combat training and readiness
- Encouraging to see (perhaps) some flexibility in OCO

# Key Industry Issues & Recommendations

- Energetics safety is paramount
  - Rocket motor igniter squib line suspended and now restarted due to the serious injury an employee in US industrial base
    - Qualification underway at new sub-supplier
    - Important weapon system impacted
  - 15 were killed in a blast at an explosives demil factory in northwestern Bulgaria in October 2014
  - 2 killed and 1 injured in an explosion at an ammunition factory in Ahuatepec, Morelos, Mexico in February 2015
  - Similar accidents and near misses (in general much less severe, and without fatalities) have occurred in USA since last ICAP
  - Recommendation: Continued vigilance

# Key Industry Issues & Recommendations

- Supply chain risk from lower volume is real
  - Example: New England Paper Tube Co. bankruptcy with limited notice and open orders for mortar ignition cartridge tubes
    - M702 (60mm), M299 (81mm), M1020 (120mm) mortar ignition cartridges all affected
    - Qualification of new supplier underway
  - Automotive airbag industry recruiting experienced propellant chemists and manufacturing technicians from ammo enterprise
  - Previous sole-source sub-suppliers are no-bidding
  - Lower ammo requirements in parallel with higher commercial and industrial volume creating “no-bid” risk from previously qualified sub-suppliers

# Key Industry Issues & Recommendations

- Supply chain risk from lower volume is real (continued)
    - Dual sourcing of suppliers cannot be maintained
    - Most ICAP members have examples of production below MSR
    - Supplier pricing continues to escalate beyond previous estimates based on higher returns in other industrial segments
    - IDIQ contract ceiling prices that were developed years ago are not adequate to meet current cost realities
    - Recommendation: Faster procurements
    - Recommendation: Empower decision makers
    - Recommendation: Reduce (our) costs
    - Recommendation: Partnerships and process control
- } Both sides  
of table



# Key Industry Issues & Recommendations

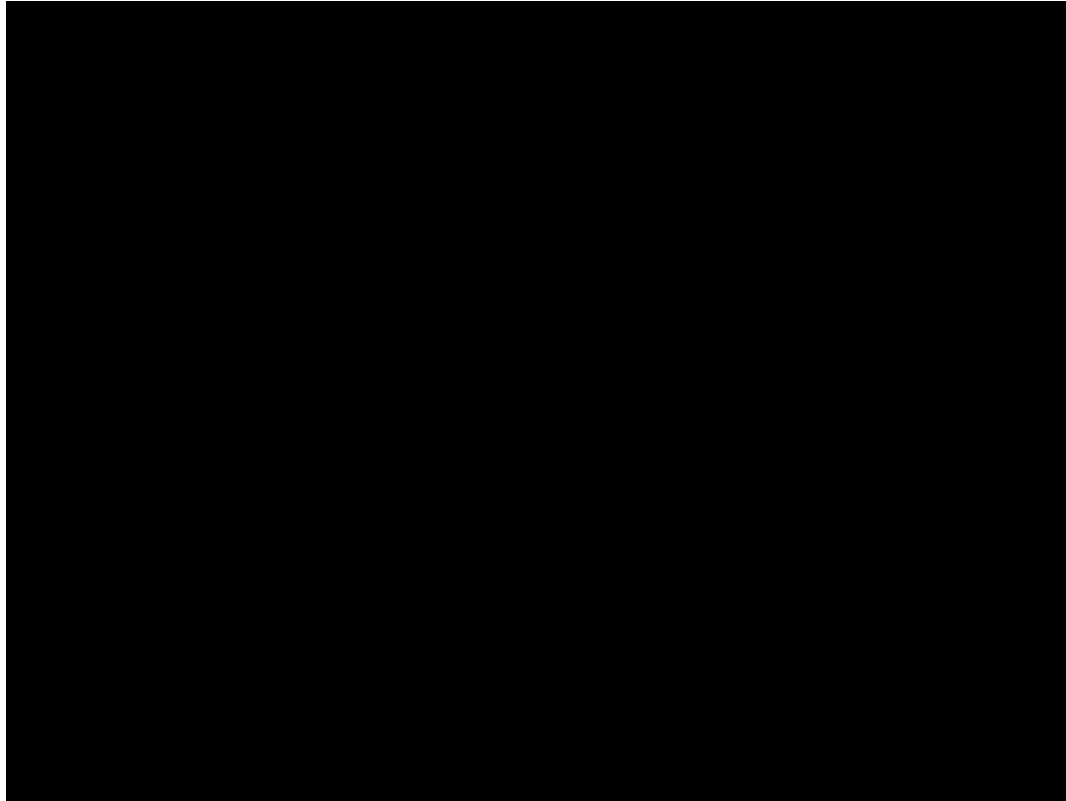
- Audit overload
  - Industry appreciates willingness of USG to address issue
  - Audits and administrative compliance can be burdensome, costly
    - Dept. Of Transportation EX# Testing:
    - \$200 propagation test proves one Squib won't set off another
    - Same packaging as thousands of detonators shipped during prior 10 years
    - DOT testing will cost \$80,000
    - Regardless who pays, cost ultimately subtracts value from US Ammunition enterprise



# Key Industry Issues & Recommendations

- Audit overload (continued)
  - Industry acknowledges and fully accepts need for audits by USG
  - Industry perception that intensity, frequency and complexity of audits is increasing inversely with defense procurement budget
    - Example: Acceptance of DPAS as sub-tiers suddenly requires its own certification, in addition to acceptance of it on the prime contractor's purchase order
  - DCMA has reported shift from product audit TO process audit but industry reports shift to product audits AND process audits
  - Recommendation: Achieve efficiencies associated with audits by similarity, 3<sup>rd</sup> party ISO9001 and AS9100 audits, extensions based on reasonable justifications
  - Recommendation: Empower auditors

# Video Clip



**Click inside box to play video – must be in slide show mode**

# Key Industry Issues & Recommendations

- McKinsey Report
  - Industry’s understanding of the assignment: “Determine best practices to mitigate cost, reduce supply risk and minimize disruptions in the ammunition enterprise resulting from lower USG demand driven by reduced intensity of GWOT and national budget deficit issues”
  - Third party neutrality perceived as very beneficial
  - All sectors and many sector members participated
  - Recommendation: Cross reference findings and recommendations from McKinsey report with actions taken based on Industrial Base Assessment Tool (IBAT)
  - Recommendation: Industry hopes to get a debrief of the recommendations >> Report-out in October ICAP meeting

# Key Industry Issues & Recommendations

- USG requests for Intellectual Property (IP) data rights increasing
  - Recommendation: Clearly articulate IP requirements in procurement strategy as early as possible
  - Recommendation: Offer equitable assurances of compensation for efforts to offset opportunity cost of commitment to large R&D effort
- Demands for historical rate and profit details - not supported by the FAR - are surfacing in RFP section “L” language of Sole Source contracts
  - Recommendation: Discussion

## Key Industry Issues & Recommendations

- Industry perception that DoD “Budget Battles” driving contracting commands to request more frequent extensions of proposal validity
  - Efforts made by the contracting command to secure procurement dollars are very much appreciated by industry, but....
  - Lengthy extensions challenge profitability as pricing is held constant in spite of cost increases and marching army costs
  - Recommendation: Discussion

# Key Industry Issues & Recommendations

- Demil Sector concerns
  - Global Demilitarization Symposium and Exhibition:
    - Many attendees at the last Industry Day still have a desire to attend a demil symposium
    - In absence of a demil symposium industry has not been able to keep abreast of the “data gaps”
  - Current Demil budget and forecast is below MSR
    - Lower quantity are being spread over longer delivery schedules
    - Difficult to invest in new technology budgets
    - Some rebound after FY15 will take several years to fill in

# Key Industry Issues & Recommendations

- GOCO Sector concerned regarding USG ability to maintain production volumes that will sustain GOCO facility operations given current funding levels
  - Loss of critical capabilities and/or capacities
  - Loss of commercial viability
  - Loss of critical skills (retention, talent acquisition)
  - Loss of strategic suppliers (exiting markets)
  - Inability to cover facility operating cost and/or dramatically escalating product prices
- GOCOs concerned that production and maintenance standards not equally applied across ammunition industrial base
  - Recommendation: Request USG apply directed production work standards equally to all GOCOs



# Key Industry Issues & Recommendations

- Small and Medium Cal sector concerns over upcoming 40mm contract/proposal
  - Sole Source award –vs- dual source award?
  - Supply base has shrunk and below MSR levels
    - Especially second and third tier suppliers
  - Recommendation: Share insights and procurement strategies at open forums such as ICAP webinar