



MAKING THE GRADE

Matt Medley explores how manufacturers negotiate and manage defence contracts in the regulatory world of the US Department of Defense

Contracting with the US Department of Defense (DoD) can represent a significant revenue opportunity for A&D manufacturers, particularly now when US domestic defence spending and international appetite for US-manufactured military equipment is rising. But this doesn't come without its fair share of regulatory hurdles. In this article, we'll explore how Specific Defence Contract Management functionalities such as Defence Contract Reporting and Defence Supplier Classification are the difference

between regulatory success and failure – to help A&D manufacturers needing to navigate the regulatory maze.

External forces such as technology development, the impact of COVID-19, Brexit and shifting geopolitical climates have always impacted the aerospace and defence manufacturing industry. Currently, defence spending is on the rise, meaning there is significant revenue potential on the table for A&D manufacturers. In fact, Thomas Industrial Data shows the Aerospace & Defence manufacturing industry is a rapidly evolving field in the US.

Components for an F-35 are subject to strict supplier classification tracking, reporting standards and compliance

Continued military spending growth is a sign for suppliers to secure ongoing business and tap into new market opportunities.

It's time A&D manufacturers start assessing the things within their control to capitalise on this revenue. Time is of the essence as manufacturers should actively source opportunities now, as research shows it typically takes between 18–24 months before a contractor can be awarded a federal government contract.

But this higher demand also brings with it new challenges, triggering the need to meet specific regulatory and contractual mandates. This can be seen in the Thomas checklist for contracting with the Department of Defense – specifically the advice to “familiarise yourself with DoD contracting regulations and procedures”.

The need to offer truly competitive products and solutions is more important than ever, but so is adhering to these contractual requirements. Today, manufacturers working on US DoD contracts have to interface to multiple governmental systems, each with their own set of procurement and contractual reporting requirements to comply with. As governments continuously strive to gather information that leads to stronger efficiencies, those contract requirements evolve over time as well. On top of this, there is also the issue of shifting regulatory mandates that can change and complicate the existing system, one recent example being the invoking of the Defense Production Act.

But the opportunity is there for even small business looking to take a first step into the DoD supply chain. Figures show the DoD spends more than 60 percent of the federal procurement budget eligible for small businesses. In the 2017 fiscal year, DoD awarded more than \$60-billion in prime contracts to small businesses

With defence sector growth expected this year due to recent geopolitical shifts, there is market opportunity on the horizon, but only if government contractors can manage the burden of bureaucracy and paperwork needed to provide defence products to the US Department of Defense (DoD)—an obstacle that has the potential to turn a market leader into a laggard, and vice versa.

According to Aerospace Industries Association the aerospace and defence market in the US alone equals 18.8 percent of the entire non-food manufacturing revenue at \$874-billion a year – which is nearly 2 percent of all US GDP. With spending on domestically and internationally manufactured military equipment for US DoD use increasing, there is now a once in a generation geopolitical and budget shift in favour of the aerospace and defence sector.

The change in defence budget spend can already be seen domestically and internationally. US President Joe Biden is reportedly considering increasing domestic spending to over \$800-billion for 2023, which will prioritise the procurement of new tanks and F-35s, shipbuilding, investment in space capabilities, and the continued upgrade of the nuclear triad and early warning capabilities.

Abroad, Germany's new chancellor is looking to buy F-35 A's in response to events in Europe, while South Korea, also under new leadership, is investing in new defence capabilities. This trend is emulated in other militaries and a large percentage of these increased

budgets will be spent on US hardware – meaning that the demand on the intricate supply chain required to manufacture these military assets and equipment will increase, as too will be the opportunity to profit. These new assets however must pass the same stringent US compliance requirements in order to be exported.

Defence assets, equipment and services that are built in the US both for domestic use and export, such as components for an F-35, are all subject to strict supplier classification tracking, reporting standards and compliance.

This is also set against a backdrop of an Executive Order on America's supply chains introduced to support an effort to improve supply chain resilience and protect against material shortages, which led to a DoD assessment of defence critical supply chains to improve its capacity to defend the nation.

A&D MANUFACTURERS NEED TO ASSESS THINGS WITHIN THEIR CONTROL TO CAPITALISE ON REVENUE

There are two specific functionalities that are both vital to successful contractual and regulatory compliance when delivering manufacturing services to the DoD in the current climate – Defence Contract Reporting and Defence Supplier Management. These are two integral components of Defence Contract Management software, both of which will ease the burden of heavy regulations and ensure manufacturing companies can achieve the level of compliance that the US DoD demands.

The DoD has recently moved into the online world and all procurement and subsequent contractual process and project updates are managed in a web-based application to give digital oversight. This online process, known as the Wide Area Workflow (WAWF), has more recently been enhanced by the Invoicing, Receipt, Acceptance and Property Transfer (iRAP) process. The process deals with \$383-billion-plus of invoicing annually and has cut invoicing time by over 50 percent.

It has several advantages from the previous paper-based model as it allows for better cash flow management, eliminates lost documents and offers global accessibility and auditing. This secure system leverages technology to manage invoicing, receipts and advanced shipping data which allow in turn for submission and tracking of documentation.

But managed manually, this can be labour-intensive, complex, leave room for human error and can cause delayed payments and other issues if done incorrectly. But the new generation of cloud-based defence manufacturing software with functionality to support Defence Contract Reporting addresses this challenge by allowing integration to the WAWF/iRAP Business Suite, which enables automatic WAWF data upload to government websites – reducing manual labour, accelerating payments and tracking all documentation.

As a result, defence manufacturers can easily record quality requirements at the supplier and parts

levels, manage and audit quality programmes and track against those same requirements throughout the entire procurement process.

It is crucial for manufacturers to understand federal regulations, conduct research and be able to meet all DoD requirements, including across their own downstream supply chain. This supporting software can help to automate and simplify the defence supplier classification process, where organisations must classify suppliers and report back over a contracted procurement period. This is traditionally submitted through the DoD's electronic subcontracting reporting system (eSRS).

DEFENCE SPENDING IS ON THE UP, MEANING GREAT OPPORTUNITIES FOR A&D MANUFACTURERS

Defence manufacturing software designed around these DoD classification requirements enables organisations to classify suppliers over a given period and surface this information when required during the procurement process. This allows a government contractor to calculate and set professional goals for these classifications.

Then, once a project is underway, progress can be analysed against goals so organisations can report back within eSRS. By using supporting software, manufacturers have opportunity to showcase their compliance with DoD regulations throughout their entire downstream supply chain ecosystem.

They can confidently meet government reporting standards, ensure project goals are on track and meet compliance requirements. Ultimately, it allows defence manufacturers to quickly and consistently prove their suppliers comply with DoD requirements.

There is a clear revenue opportunity for A&D manufacturers to ride the wave of rising US defence spending. But there will be a balance to strike between profitability and compliance, as government continuously strives to gather information that leads to better decisions, with contract requirements likely to evolve over time. This means A&D manufacturers can unlock the huge potential of contracting with the US Government if they can ensure they meet strict compliance, regulatory and contractual requirements now and into the future.

This requires navigating the regulatory maze of US Defence Contract Management – and manufacturing enterprise software can help alleviate these challenges, interfacing directly and meeting the reporting requirements that come with territory of being part of the US DoD supply chain. Seamless integration into iRAPT system makes tracking documents and invoices easy to manage and audit. Furthermore, manufacturers can classify suppliers throughout the supply chain and procurement process allowing them to calculate and set expenditure goals and automate reporting within eSRS.

The A&D manufacturing is a sector witnessing a generational uptick in military spending. To meet all US Defence Contract Management mandates, software with industry-specific contract management is the right option to manage the compliance and reporting requirements of the US Government ●

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