



Top Supply Chain Disruptions for Procurement in 2023:

AEROSPACE & DEFENSE

With the frequency of supply chain disruptions increasing, Aerospace & Defense leaders have recognized that the winners will be the organizations who can identify potential risks and get ahead of negative events before the impact is felt.

Per Interos research, the average A&D company faces three major supply chain disruptions a year, costing an average of \$160M in lost revenue alone. Coupled with the growing demand being placed on aerospace and defense businesses due to the easing of the global pandemic (and resulting travel business growth) and response to military conflicts, Procurement and Supply Chain teams are being asked, and must be able to quickly answer:

- What is the status of our risk management program?
- Where are the risks in our supply chain?
- What are the types of risk that we are facing within our current supply base?
- How are we tracking that risk and mitigating potential disruptions?
- How are we ensuring that new sources of supply won't bring new risks to our business?

Executive management is laser focused on business disruptions caused by risks within the extended supply chain, which can lead to capacity constraints, increased costs, delivery delays, reputational damage, and even restrained access to global markets. Interos sees the following as key risk areas faced by both commercial and defense-focused A&D customers:

GEOPOLITICAL | Trade relations, unrest, and conflict

Extended supply chains that reach into certain countries can be a significant risk for A&D manufacturers. Compound that with social and political unrest in parts of the world creating additional supply chain risks. Military conflict in Ukraine is an excellent example of geopolitical risk affecting extended supply chains in unexpected places, such as severely limiting energy supply to European suppliers while creating increased demand for finished product. Further, geopolitical tensions can cause macro-economic risks as increased defense spending outpaces supplier capacity growth, potentially causing shortages for commercial production.

FINANCIAL | Inflation, rising interest rates and recessionary pressure

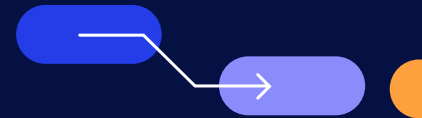
Global financial pressure is impacting suppliers and sub-tier suppliers everywhere. One A&D customer has estimated that more than half of the suppliers in its extended supply chain could be impacted by currency troubles in their home countries. Coupled with inflationary costs and rising interest rates, they need to ensure that they have advance warning of financial risks (e.g. corporate credit downgrades) to mitigate disruptions in their supply chain operations.

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The number of major supply chain disruptions the average A&D company will face each year

\$160M

The revenue an average A&D company loses annually due to supply chain disruptions



OPERATIONAL | Disruptions caused by weather, accidents, pandemic responses

The Zero Tolerance policy in China resulted in significant disruptions as COVID continued to shut down operations in entire regions, causing a bullwhip effect to global supply and logistics operations. Beyond COVID, weather related disruptions (e.g. Hurricane Ian) to manufacturing, energy production, and logistics continue to cause concerns about where and who will be affected by the next storm system or weather event. Non-natural disasters (e.g. factory fires) have an immediate and direct impact on production delays and shortages that can throw supply chain and manufacturing operations into a tailspin.

RESTRICTIONS | Sanctions lists and government regulations

Any company selling to the US federal government has to abide by rules regarding specific supplier entities as well as specific countries or locations. Section 889 of the National Defense Authorization Act (NDAA) is one example regarding telecommunications equipment suppliers, but for Department of Defense contractors, the rules become more arduous. What's more, compliance with these regulations is a moving target, as entity and location lists change and sub-tier suppliers for certain components replace existing suppliers. Since 2016, the United States has issued over one thousand restrictions targeting Russian and Chinese companies, 125 in December 2022 alone, requiring A&D companies to continuously monitor their supply chains for restricted entities.

CYBER | Data leakage, Intellectual Property loss, ransomware and system availability

Per Interos' Research, A&D companies lose an average of \$32M a year in lost revenue due to cyber-related disruptions. For example, a very large A&D manufacturer was unfortunately impacted by a supplier data security incident in late 2022, reinforcing the need for a holistic cyber risk posture throughout extended supply chains. Identifying and mitigating vulnerabilities deep within the supply chain can affect not only sensitive data, whether exposed for financial gain or more nefarious purposes, but also corporate reputation and future revenue growth in an industry where safety and security are paramount.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) | Sustainability, human rights, and transparency

ESG topics and related corporate policies are mainstream and growing in priority. Customers, regulators, and increasingly, investors, are interested in how A&D manufacturers are operating their businesses, including across the extended supply chain. Regulatory landscapes are changing and placing more burden on Procurement and Supply Chain teams to conduct expansive due diligence and monitoring of suppliers regarding environmental issues, ethical labor practices, and transparency and governance of those practices.

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Identifying, mitigating, and managing these risks is paramount to success in today's A&D markets. Supply chain disruptions can and have had tremendous impacts on revenues, future growth, and corporate reputations. Interos' research found that over 75% of A&D companies intend to implement continuous supply chain visibility technology this year. In this highly competitive market, the winners will be those organizations who place risk at the top of the priority list and those who create consistent, comprehensive programs and processes that center around having the most up to date indicators of risk across their extended supply chains.

1000+

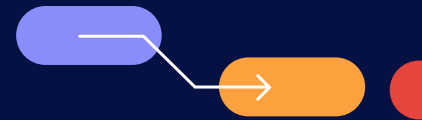
The number of restrictions the United States has issued targeting Russian and Chinese companies since 2016

\$32M

The average revenue A&D companies lose due to cyber-related disruptions

75%

The number of A&D companies that intend to implement continuous supply chain visibility technology in 2023



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