

## Dealing with supply chain disruption risk - In the context of the financial crisis-



Airbus  
Airbus Military



Eurocopter



EADS Astrium



Defence & Security

44. Symposium Einkauf und Logistik  
Berlin 12. November 2009

Dr. Anfried Sauerborn  
Senior Manager  
Sourcing Strategy and Management  
EADS Corporate Sourcing



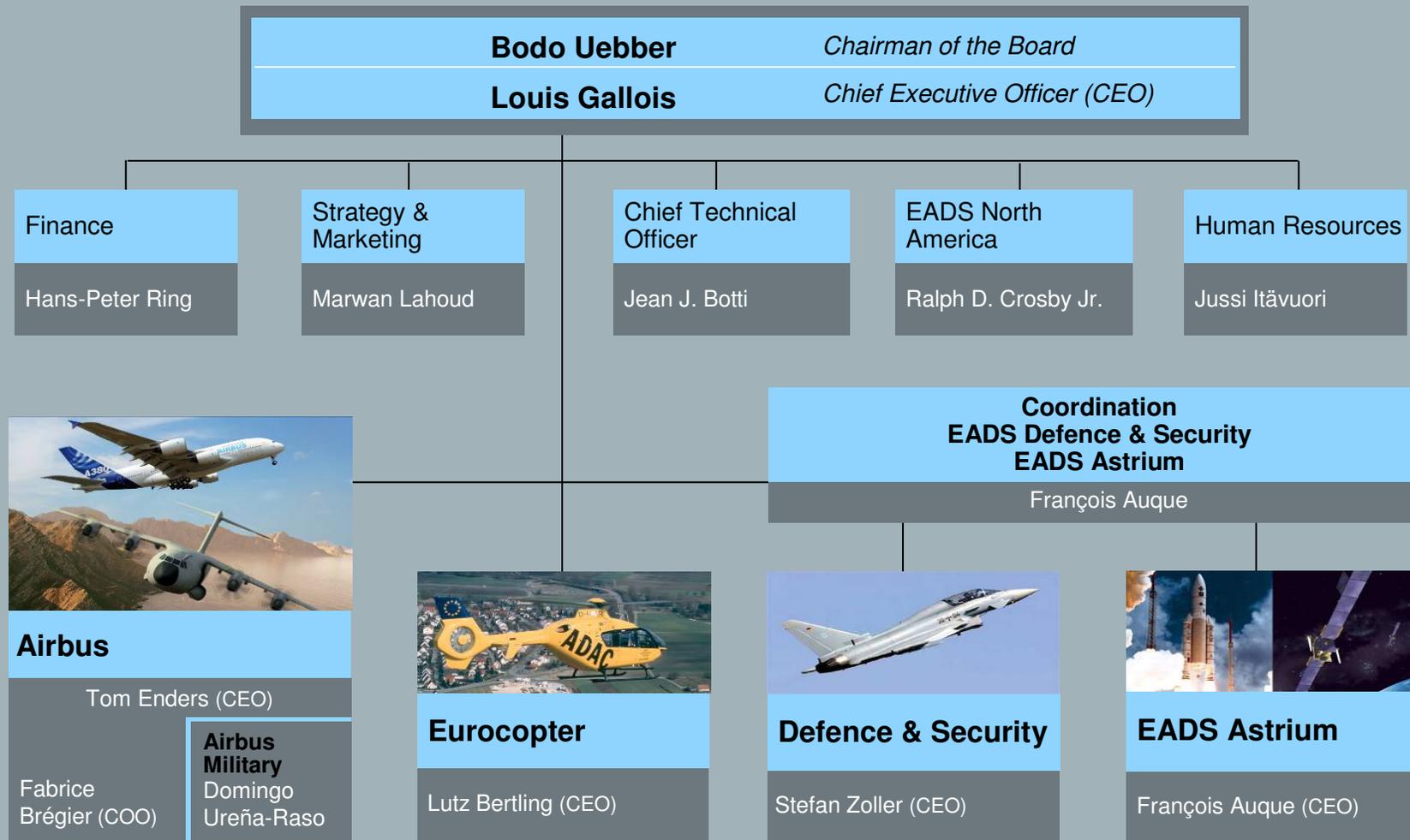
## Structure of presentation:

- EADS Group structure and sourcing figures
- How EADS manages its supply base in the light of the Financial crisis:
  - Identification of suppliers- vulnerable by the financial crisis
  - Supplier Monitoring
  - Mitigation means and methods

# EADS at a glance

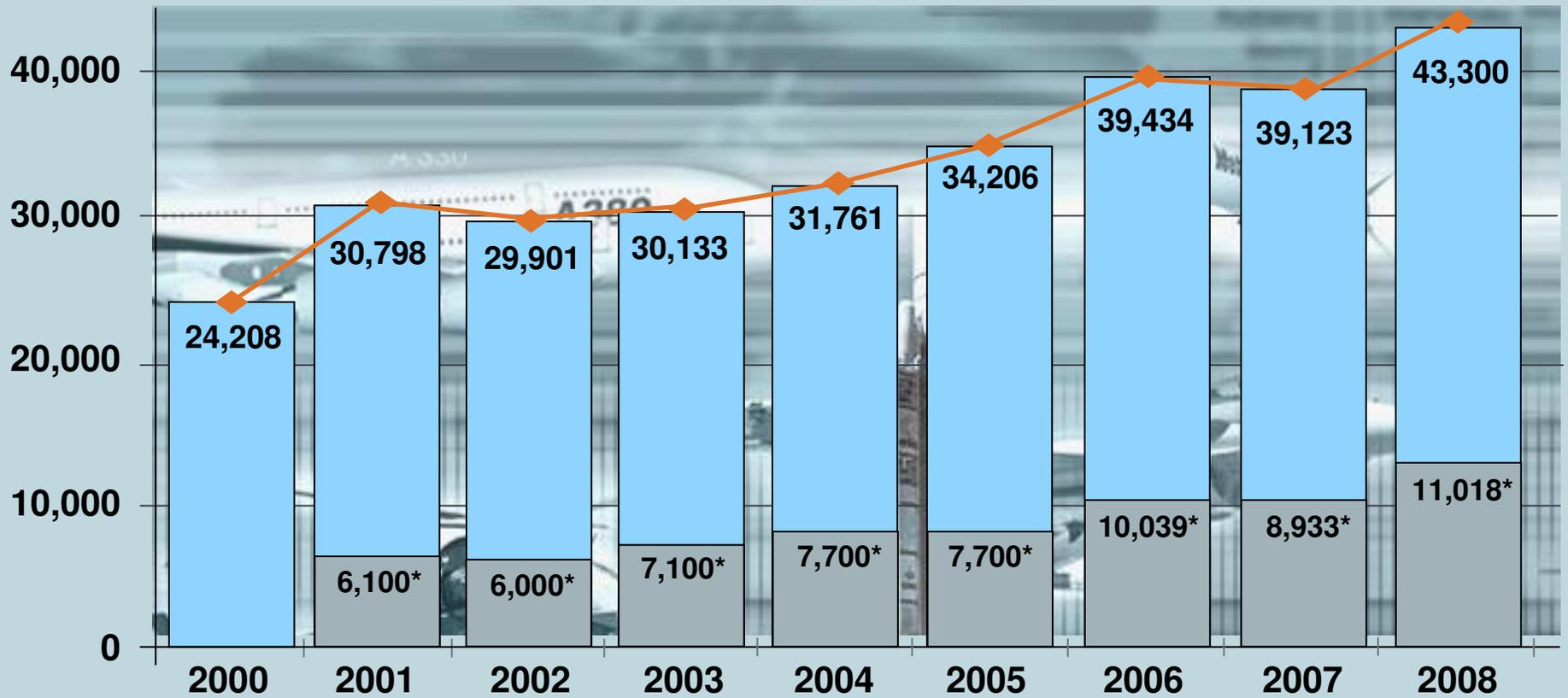


# EADS Management Structure



# EADS Revenues

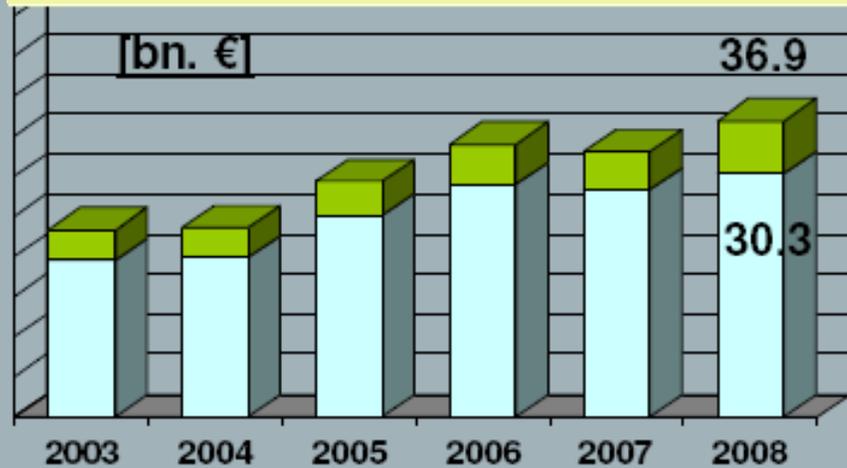
in mill. €



\* Sales revenues defence in million €

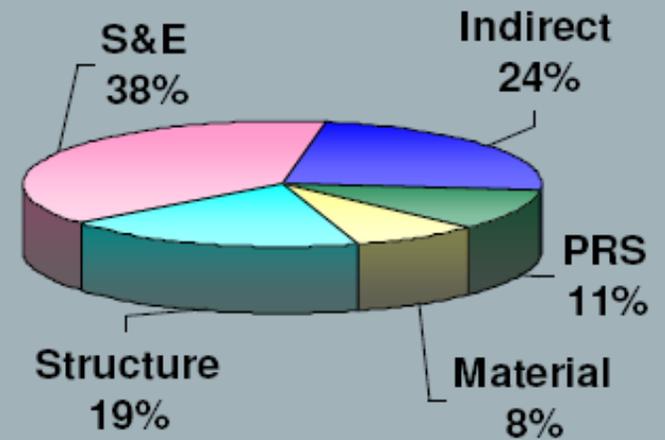
## EADS Key Sourcing figures:

Sourcing turnover (external ) regularly exceeds 2/3 of sales



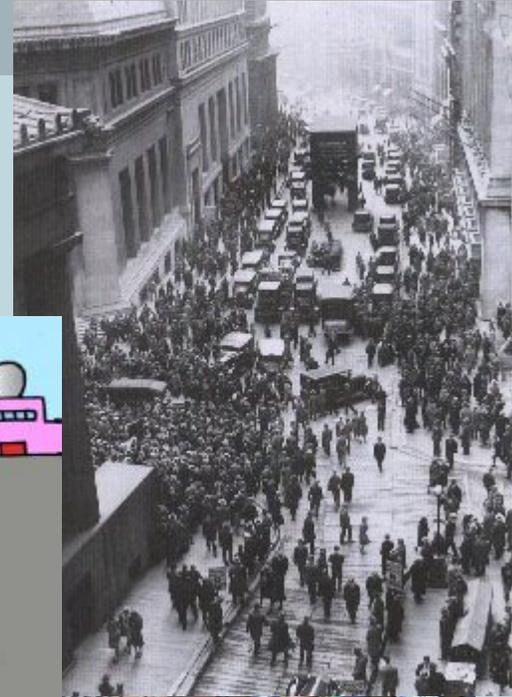
Sourcing turnover

76 % of spend is product related

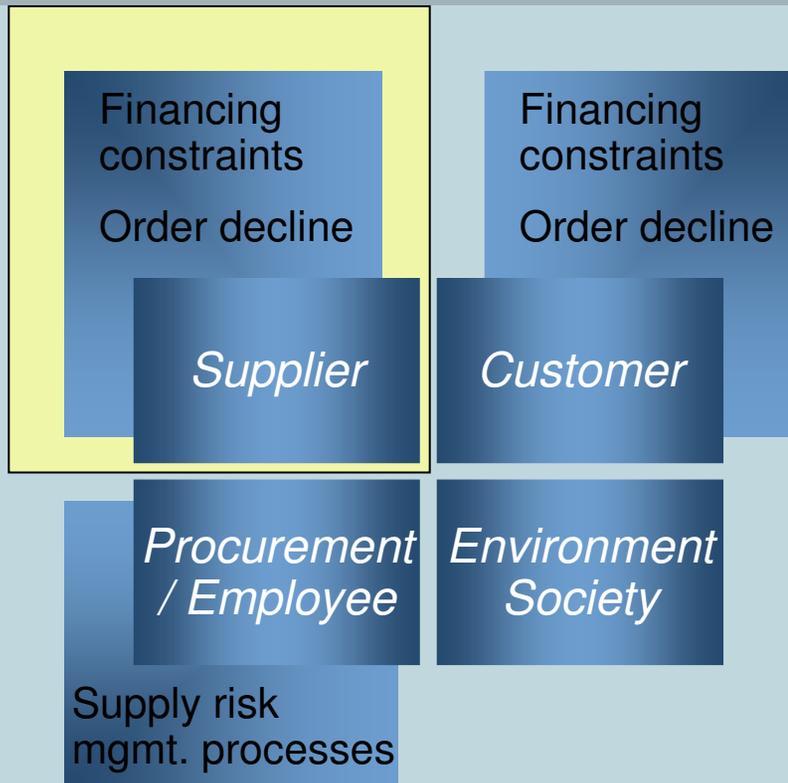


Sourcing per Category

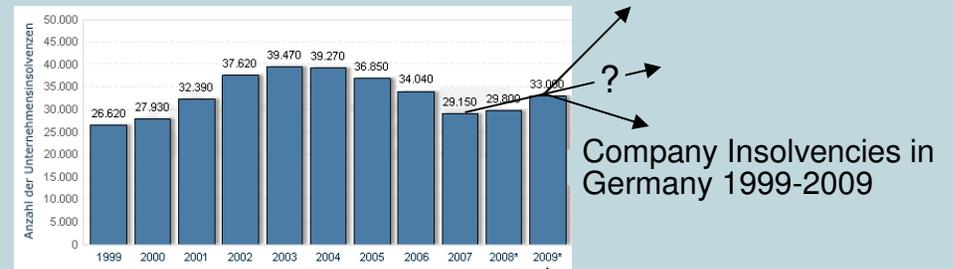
# The financial crisis: how does it impact the aerospace industries?



# Impact of Financial Crisis on Supply Chain: Status



- Financial and economic crisis has an impact on the aerospace industry
- Customers and suppliers face funding difficulties
- Some suppliers develop performance issues, but
- No significant increase of supplier insolvencies observed yet





## EADS procurement response to the Financial Crisis

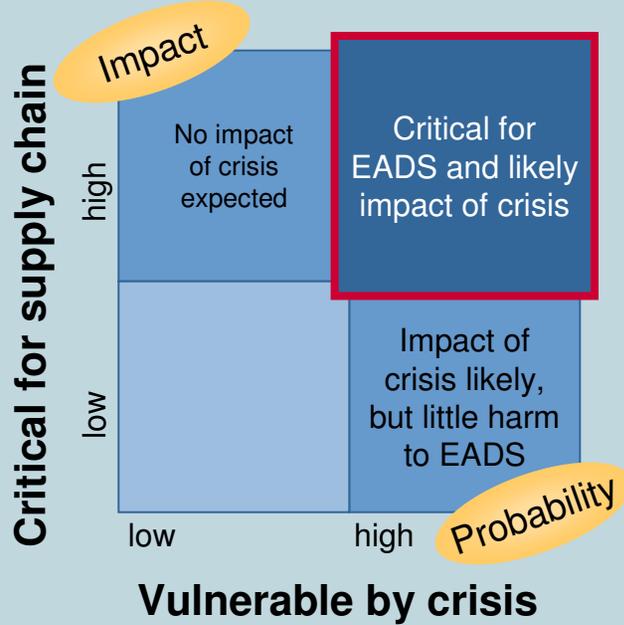
### Regular operations:

- Financial monitoring (D&B Risk indicators and alerts)
- Supplier Intelligence System SIS (EADS experts assessing financial strength and weaknesses)

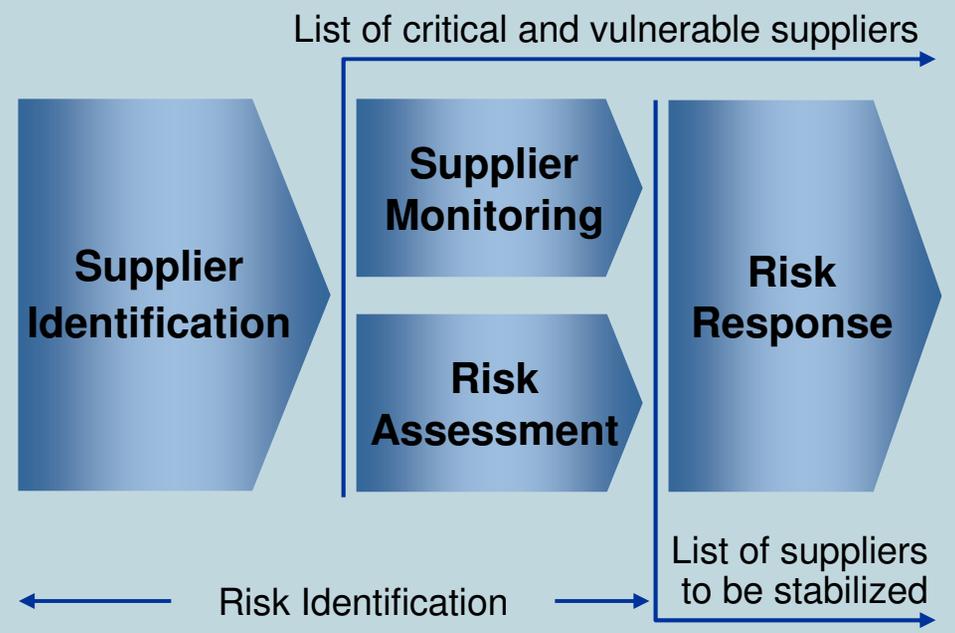
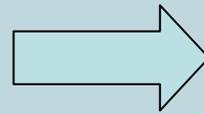
### In addition as response to the Financial Crisis:

- Creation of a multidivisional network lead by Corporate Sourcing
- Edition of a Corporate Guideline on supplier management during the financial crisis (explanations see next pages)
- Monthly reporting on critical and vulnerable suppliers
- Monthly team meetings to align process and common (=Multi division) supplier strategies

# Corporate guideline: Identification, Monitoring and Mitigation of Supplier Risk



**Impact / Probability Matrix For Supplier Identification**



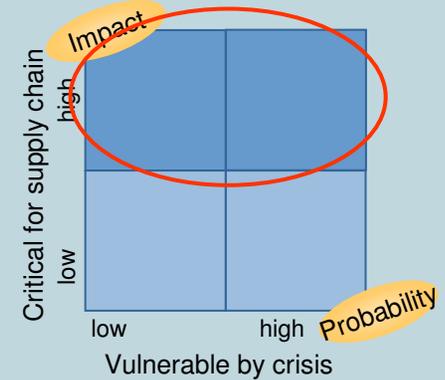
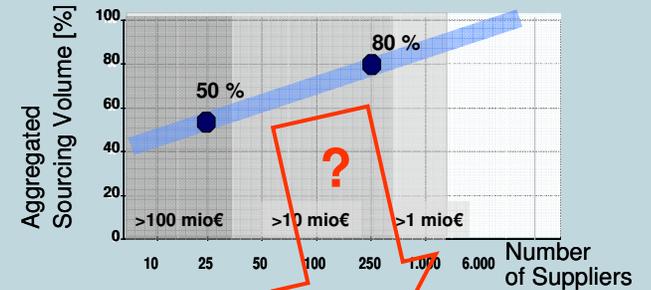
**4 Step Risk Management Process**

# Identification of Critical Suppliers

Overall criterion to define **critical for business**:  
 „time and cost to resource“

*„Could we resource fast enough  
 and with reasonable effort  
 to avoid supply chain disruptions?“*

- Criteria for a supplier being critical for business:
  - Monopolist
  - Single source supplier
  - Competitive situation
  - Capacity constraints



## Risk Assessment

Impact of a supply chain disruption?

Main influencing factors for impact are:

- Time to resource
- Available stock to cover production
- Turnover from affected product
- But also:
  - Cost for resourcing and requalification
  - Penalties for delayed deliveries
  - Workarounds to balance delayed supplies

Example formula:

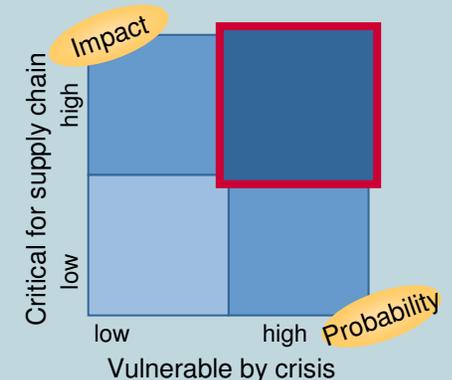
$$\text{Risk} = (\text{Time to resource} - \text{Stock}) \times \text{Turnover}$$

## Identification of Vulnerable Suppliers: Business Signals

**Vulnerable to the crisis:** significant risk that the supplier may not be able to fulfill its obligations to EADS

### Market and business early warning signals:

- Industries affected by crisis
- Delayed aerospace programs
- Loss of customers / market share, increased Competition
- Performance degradation
- Inventory
- Human resources issues
- Decisions postponed
- Communication difficulties
- Claims at court

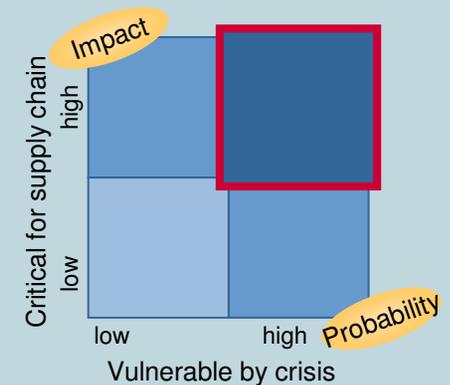


## Identification of Vulnerable Suppliers: Financial Signals

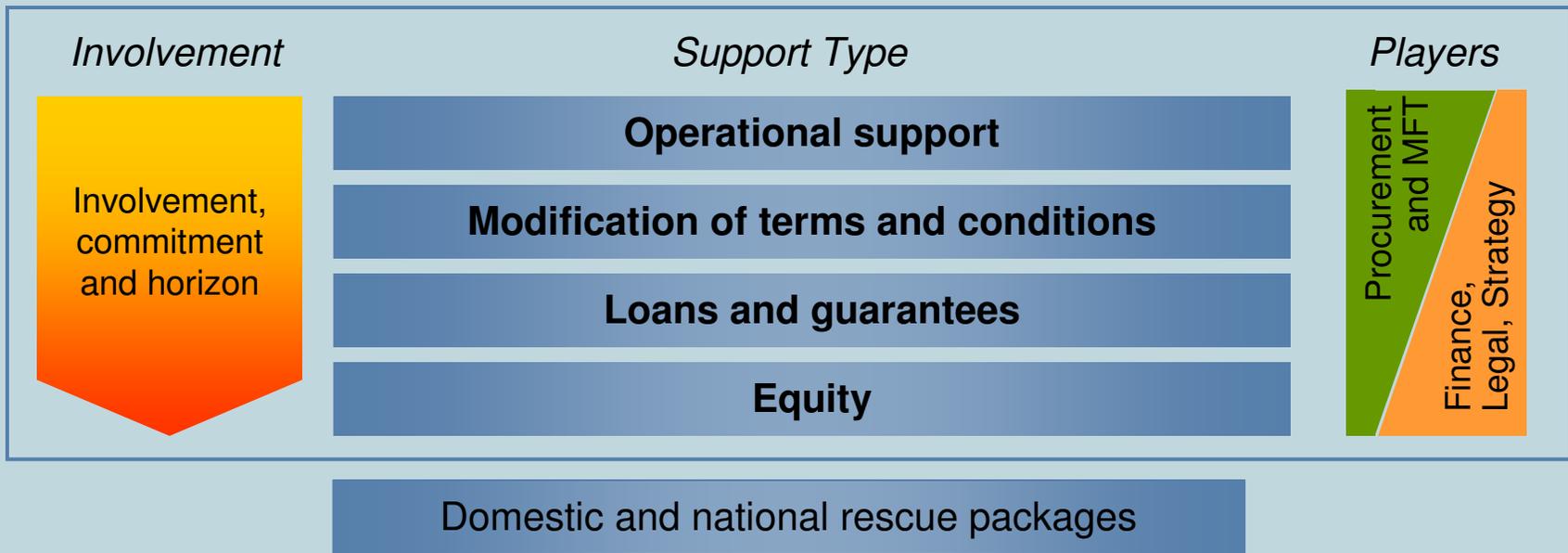
Vulnerable to the crisis: significant risk that the supplier may not be able to fulfill its obligations to EADS

### Financial signals:

- Financial performance:
  - growth**: revenues
  - profitability**: EBIT margin, net margin
  - debt/equity**: net debt and gearing
  - cash**: current ratio and cash available
- Breach of covenants from banks
- Payments: towards sub-tier suppliers and towards customers
- No parent company guarantee
- Share price evolution



# Mitigation Actions Overview



**Objective: Support the supplier to maintain its operations in order to avoid or minimize risk**

# Mitigation: Scope of actions from operations to equity

## Operational support

- Improve inventory management
- Resolution of claims
- Transfer of activities
- On-site support team
- Supply base consolidation

## Modification terms and conditions

- Shorten payment terms
- Advance payments
- Purchase material for supplier
- Renegotiate risk sharing

## Loans and guarantees

- Acquisition of inventory
- EADS loans and guarantees
- Reverse factoring
- Sale and lease-back

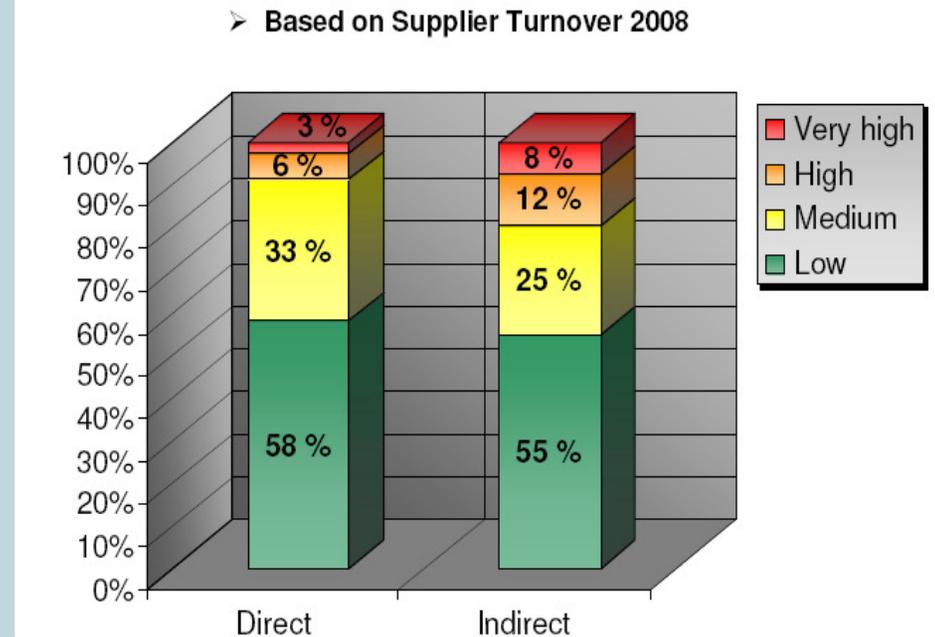
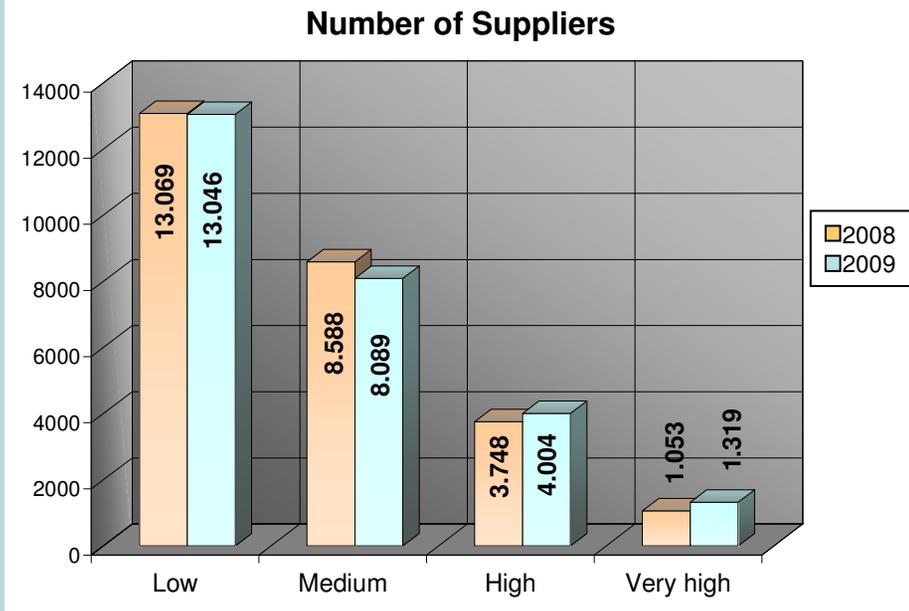
## Equity

- EADS shareholder ship
- Involve private equity fund

## Domestic/national rescue packages



## Actual global indicators on financial crisis impact:



EADS supplier failure risk level increased in 2009 (Q1-III) compared to 2008 but:

- Not significantly in terms of number of suppliers
- Mainly in the indirect commodities with low impact on Supply Chain disruption



## Summary/conclusion:

- EADS developed a common framework in order to most efficiently anticipate and mitigate supply chain disruption relevant supplier failures
- The divisions implemented their processes in line with this framework
- Cross EADS transparency is assured by a monthly reporting of vulnerable suppliers and mitigation actions
- Common (Supplier to more than one division) are mitigated in a common, agreed strategy between the divisions sometimes even involving 1st tiers
- The dimension of the crisis is lower than expected (at least in the aerospace related industries), this is confirmed by the low number of insolvency cases we have to deal with, as well as by global indicators



**Thanks for your attention**



The step beyond

**Dr. Anfried Sauerborn  
Senior Manager Strategy  
EADS Corporate Sourcing**

Tel.: +49 (89) 607-34741

E-Mail: [anfried.sauerborn@eads.net](mailto:anfried.sauerborn@eads.net)

