

When Predators Lurk, Keep a Close Eye on the Leader

Counterfeits are on the rise, public scrutiny is intensifying, and known holes in the supply chain remain vulnerable to ambitious predators. It's time to stay close to the pack. It may be time to run towards the leaders.

The Editors, Supply & Demand Chain Executive

At its annual conference in May, the Institute for Supply Management (ISM) honored L-3 Communications as the recipient of the Annual ISM Awards for Excellence in Supply Management in the Process Category. ISM recognized L-3, a major aerospace and defense prime contractor, for its initiative to help mitigate the risks and costs associated with component obsolescence and counterfeit parts in the supply chain. "L-3 implemented executive councils comprised of senior leaders in the supply chain and quality organizations, and deployed teams to develop a disciplined and comprehensive strategy," ISM noted in announcing the honor.

In an article in ISM's *Inside Supply Management*, Ralph DeNino, vice president, procurement for L-3 Communications, highlighted the benefits that have accrued to the company thanks to its obsolescence and counterfeit parts initiative, including millions of dollars in cost avoidance due to early detection of obsolescence issues and greater than 50 percent reduction in number of components alerts. L-3's award-winning business process was featured in this edition's "Fighting the Fakes," on pg. 18.

Leaders like L-3 have linked the challenges of managing obsolescence and counterfeits in a way that should make their colleagues in

other industries take note. Counterfeits are not confined to the DoD supply chain. Fakes ranging from consumer electronics to medical devices – as well as components for military equipment – are part of the flood of counterfeits that Frontier Economics has estimated will reach up to \$1.77 trillion by 2015. The volatility in demand and supply engendered by the recent economic downturn and events like the tragic earthquake and tsunami in Japan have only exacerbated this issue.

Many supply chain leaders assume – or accept on face value – that their suppliers are not buying from the open market and therefore increasing their exposure to fakes. And yet statistics from a recent government study highlight that this is clearly not the case. According to the U.S. Department of Commerce, Office of Technology Evaluation, "It is not uncommon, however, for authorized distributors to purchase parts outside of the OCM supply chain in order to fulfill customer requirements – 58 percent purchase parts from other sources. Specifically, 47 percent of authorized distributors procure parts from independent distributors, 29 percent procure from brokers, and 27 percent procure from Internet-exclusive sources." Given the threat that counterfeits represent to health



and safety, let alone to national security and the lives of servicemen and women, companies can no longer afford such assumptions. Rather it is time to pay attention to where the market is headed and keep pace with the herd as mounting pressure surrounds counterfeits. It's a dangerous time when the supply chain is fraught with risk exposure and significant publicity swirls global companies. Leaders like L-3 are moving in the direction of safety enabled by solutions ranging from standards like AS5553 from SAE International, and counterfeit market intelligence from companies like ERAI Inc., to BOM management, component obsolescence, and standards management solutions from IHS Inc.

Earlier this year Sen. Carl Levin, D-Mich., "[C]ounterfeit electronic arts pose a risk to our national security, pose a risk to the reliability of our weapons systems and pose a risk to the safety of our military men and women".

The stakes, indeed, are high, and the time is now to begin addressing the challenge of counterfeit and suspect parts in the supply chain. ■



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