



DoD Releases FY17 Numbers, Revealing Major Concerns for Defense Contractors' Internal Suppliers

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On April 12, 2018, the Department of Defense released their annual report outlining the United States' industrial capabilities for FY17. While the defense sector is financially outperforming the broader U.S. equity market, several underlying trends such as component obsolescence, loss of production capacity and a highly skilled workforce, and fluctuating demand threaten the sector's industrial manufacturing base, limiting innovation and U.S. competitiveness.

As Ed Evangelista, President of Rhode Island-based manufacturer Federal Electronics, states, "Having downsized operations in response to lower defense budgets, many defense contractors are having difficulty keeping up with the surge in demand. Likewise, many of their critical suppliers, often small businesses, have left the market, refocusing their efforts on more stable, non-military opportunities. This decrease in infrastructure and skilled labor at all levels is difficult to replace quickly enough to accommodate the increased requirements of the DoD."



As outlined in the report, perhaps no example is as telling as the electronics sector where staying competitive requires significant, continual investments in infrastructure, new equipment, and maintaining a trained and responsive workforce. Additionally, a significant percentage of the components incorporated in defense electronics designs are manufactured offshore, driven primarily by commercial applications. Consideration must be given to maintaining a secure, tamper-proof supply chain, especially as it relates to component obsolescence.

“In light of these challenges, it is critical for defense contractors to assess whether they are equipped to handle anticipated increases in demand. For some organizations, it may be time to consider alternative strategies to address internal manufacturing capacity constraints, the role of external electronic contract manufacturers to mitigate shortfalls in that capacity, and supply chain processes that provide an adequate flow of compliant components and fabricated material.” said Evangelista. Addressing these issues early in the ramp will insure manufacturing and supply chain continuity for the long term. For more information, read the full DoD Report [here](#).

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ABOUT FEDERAL ELECTRONICS.

Founded in 1948, Federal Electronics, Inc. is a leading electronics manufacturing services provider. Based in Cranston, Rhode Island, and Hermosillo, Mexico, the company serves the needs of original equipment manufacturers and government contractors by providing comprehensive production solutions that lower cycle times, control and reduce costs, and create flexible supply chains that are responsive to volume variability. For more information, visit www.federalelec.com.

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