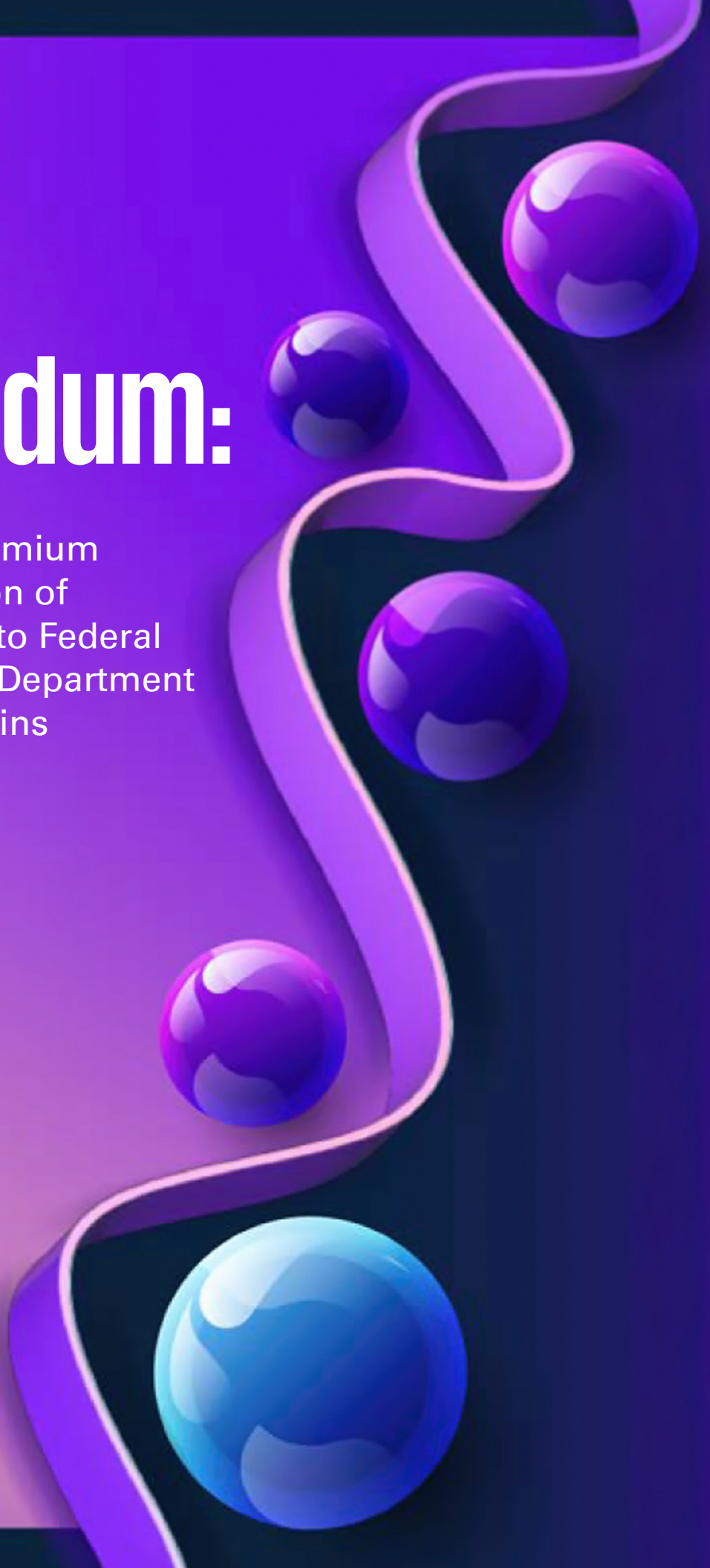




Addendum:

The Proximity Premium
and the application of
strategic shoring to Federal
Government and Department
of War supply chains



Executive summary

The Federal Government and Department of War (DoW) stand to gain significant benefits from the implementation of strategic shoring as they navigate a landscape marked by evolving global dynamics and geopolitical uncertainties. The imperative to build robust, agile, and resilient supply chains is critical not only for national security but also for maintaining operational readiness and strategic advantage. By shifting supply chain operations closer to the point of need, establishing robust regional sustainment frameworks and shortening supply chains at home and abroad, they can build more resilient, efficient, and sustainable supply chains. This approach not only addresses critical vulnerabilities but also aligns with broader strategic objectives, including enhanced national security, improved operational readiness, and greater overall strategic effectiveness.



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Enhancing Federal and DoW supply chain resilience

1. Proximity premium and resilience

Proximity serves as a new value driver, enabling the Federal Government to enhance its supply chain resilience and operational agility. The traditional global supply chain structures, which are vulnerable to disruptions from various black swan events such as pandemics and geopolitical crises, have demonstrated the need for a more localized approach. By emphasizing localization of supply chains to strategic areas of operations, the DoW can shorten lead times, improve control over operations, and bypass trade barriers, thereby ensuring that critical military supplies are readily available when needed. These benefits also apply to the nation's critical supply chains managed by federal agencies or the Center for Strategic National Stockpile, and impact supply chains for food, medicine, and energy, enhancing resilience and providing uninterrupted availability and access to essential goods and services in times of crisis.

2. National security and critical supply chain components

While a precise percentage is unknown, the DoW's supply chain, particularly at sub-tier levels, is heavily reliant on foreign suppliers, with China being a significant player, especially for critical materials and components. Implementing strategic shoring can significantly mitigate risks associated with dependency on foreign sub-tier suppliers by relocating the sourcing of critical components such as advanced electronics, rare earth materials, and essential military equipment to more secure and allied regions. Over half of all supply chain disruptions occur at the sub-tier level, and this approach would mitigate the risk of these disruptions and greatly reduce their impact. This strategic positioning not only enhances the resilience of the supply chain but also ensures compliance with national security regulations. Such measures protect sensitive military technology and materials from potential adversaries. Leading capabilities such as extended visibility through supplier collaboration and optimizing decisions through scenario planning can also help in this regard. KPMG LLP brings experience leveraging lessons learned and challenges to the High Tech and Automotive industries, driving service, revenue and profit optimization through improved supply chain collaboration.

3. Supplier and partner relationships

Reviving supplier and partner relationships is essential for successful strategic shoring. The Federal Government must manage outsourced relationships effectively, ensuring that suppliers and partners are aligned with its strategic objectives. Developing strong local or regional expertise, through initiatives such as the DoW's Regional Sustainment Framework, fosters collaborative partnerships which can help mitigate risks and enhance supply chain resilience. Leveraging artificial intelligence and data analytic technology solutions (with a "human in the loop") to enable supplier collaboration can improve this relationship management, and this approach could be further enforced by including terms in contracts that hold suppliers accountable to respond to risk assessments and other requests from the government to enhance their visibility downstream into their supply chains.

Operational efficiency and flexibility

1. Operational readiness and flexibility

The flexibility offered by strategic positioning and creating local sourcing capacity is crucial for maintaining the readiness of all military branches. **Shortening supply chains and positioning critical supply points closer to operational theaters reduces lead times and enables a swift response to changing mission requirements and threats.** This adaptability is reflected in improved lead times, logistics efficiency, and overall reliability. Tracking these metrics helps identify areas for improvement, ensuring that operational readiness is not compromised.

2. Cost efficiency and budget stability

While strategic positioning may require initial investment, the long-term cost savings from avoiding supply chain disruptions, tariffs impact on manufacturers, and re-sourcing efforts are considerable. Implementing cost-benefit analysis frameworks and long-term financial planning models allows the Federal Government to better allocate resources and optimize budgets, thereby enhancing supply chain sustainability. Assessing the total cost of ownership and the lifecycle costs of relocated supply chain operations ensures that budget constraints are managed effectively while maintaining high levels of readiness.



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Regional sustainment and operational readiness

1. Regional sustainment frameworks

To effectively implement strategic positioning and diversify sources of supply, the DoW and Federal Government can leverage regional sustainment frameworks. Creating a network of regional hubs that provide sustained support to military operations globally is essential. Establishing logistics and supply centers in strategic locations within both the Continental United States as well as overseas locations enhances the ability to project power, sustain extended military operations, and respond effectively to crises or sudden disruptions. Regional hubs also serve as emergency response and backup capabilities, ensuring that alternative supply and support routes are readily available when needed, thereby maintaining uninterrupted operations and supporting contingency plans.

2. Enhancing speed and reducing complexity

By shortening supply chains and positioning critical supply points closer to operational theaters, the DoW can minimize transit times and transportation costs. Monitoring and optimizing metrics such as average transit time and logistical responsiveness enhances the ability to rapidly deploy forces and sustain operations with minimal delay. Multiple regional hubs reduce the risk posed by a single point of failure, ensuring that operations are not halted by localized disruptions. With supply points closer to operations, command and control become more effective, and real-time data exchange and improved coordination streamline supply chain management, allowing for more agile and responsive logistics operations.

3. The tyranny of distance and speed to warfighter

Addressing the tyranny of distance is crucial for the DoW, as long supply chains can significantly hamper operational effectiveness. [The Proximity Premium research](#) article discusses how companies aim to reduce the number of steps and involve fewer regions in their supply chains to boost efficiency. Similarly, the DoW can benefit from reducing the complexity of its supply chains by establishing regional hubs that are strategically located close to nodes within the relevant operational theaters. This reduces transit times, lowers transportation costs, and enhances the speed to the warfighter.

Conclusion

The concept of strategic shoring holds significant potential for the Federal Government and the DoW by enhancing supply chain resilience, operational readiness, and strategic efficiency. When shifting supply chain operations closer to home and establishing robust regional sustainment frameworks, the DoW can mitigate vulnerabilities associated with long, globalized supply chains. The Proximity Premium serves as a new value driver, enabling the DoW to shorten lead times, improve control over operations, and ensure the availability of critical military supplies. To achieve supply chain resilience in a contested environment, it is essential to foster strong supplier and partner relationships, integrate advanced data analytics, and enhance predictive forecasting capabilities. These strategies ensure the DoW remains agile and responsive to changing global dynamics, securing a competitive advantage and supporting national security objectives.

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