

Industry Summary: Aerospace & Defense

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The Aerospace & Defense track started with a detailed presentation by Brad Curran of Frost & Sullivan on the key issues facing the industry today. The discussion focused on the upcoming changes in budget, procurement, and operational priorities that the next administration will have to make to balance the needs facing the industry today. The audience was not shy about jumping into the discussion and in creating a truly interactive session. Issues of concern to participants included communications bandwidth solutions, government, and industry responsibility for immature technologies-program cost overruns, and that some very hard RDT&E, procurement, and force structure decisions will have to be made by the next administration to free up resources to reequip the ground forces.

The second speaker, Mr. Sam Arbel with Israeli Aircraft Industries (IAI), provided a solid framework for firms looking to enter the U.S. defense and aerospace market. While the U.S. defense market accounts for approximately 50 percent of global spending, it is not an easy market for non-U.S. firms to enter. Mr. Arbel outlined IAI's approach, highlighting the focus on growth through teaming, joint ventures, and acquisitions; with teaming being the preferred method and joint ventures the least desired. Mr. Arbel also highlighted the many stakeholders to take into account, as well as the legal and business processes necessary for off-shore firms to be successful in the U.S. Two key success factors are to have a differentiating strategy and to communicate with team members and customers constantly to understand the real requirements while anticipating and avoiding problems.

This session was followed by a panel discussion concerning competitive challenges. We felt that the panel discussion was one of the highlights of the day. The panelists provided a well-balanced mix of perspectives on the commercial aerospace, homeland security, and defense markets. The insights specifically on the current state of the Homeland Security market are noteworthy. While there is a lot of anticipation and speculation regarding the future procurement opportunities with the Department of Homeland Security (DHS) directly, and for security applications at the state and local level, the DHS is not currently providing a clear and sustaining revenue stream. Vendors viewing the DHS and homeland security market as a strong area for growth and potential offset for any reductions in DoD spending, need to be very cautious and realistic in their expectations. Global opportunities in the homeland security market are expanding.

The panel also provided some valuable insights into the current state of the commercial aircraft market. The current strike at Boeing and outsourcing issues facing all of the large aerospace Original Equipment Manufacturers led to a lively and interesting discussion on China. While China is too large of a market to ignore, the cost of participation can be high in terms of technology transfer and job creation. The panel had different views on the best way to manage this issue, but all agreed that the current trend towards outsourcing and the global shift in aerospace manufacturing will continue.

The interactive session on Aerospace & Defense growth opportunities included insights on the Army's vehicle reset and acquisition programs. It is very difficult to predict future needs while the Army is in the midst of combat operations and a reorganization of the Division structure into Brigades. Specific technologies and services such as sensors, communications, and maintenance are growing at high rates. The uncertain future market outlook for ships, aircraft, and satellites was also highlighted.

The group then had a very compelling case study from Mr. Nelson Santini with DataPath. DataPath is a rare success story of a firm that has successfully evolved from a component supplier to a tier 1 and occasional prime manufacturer. DataPath has grown 20X their original size in just 5 years. The company is in a strong position as the demand for communications, bandwidth and inter-operability increase. Their focus on Army operational needs and willingness to embed employees with units in the field gives DataPath unique insights into mission requirements. DataPath represents a solid and motivating story for similar firms looking to succeed in the global defense market, which is dominated by a handful of large firms.

The convergence track highlighted new and expanding Aerospace & Defense applications for Measurement & Instrumentation technology firms. Among the topics discussed were embedded diagnostics, robotics, and maintenance and repair services, all areas of growing DoD emphasis. Manufacturers of sensors and test equipment shared ideas with traditional systems integrators and prime contractors on how to take advantage of current and



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future opportunities in military and commercial aerospace, as well as DoD communications, weapons systems, and support contracts.

The Growth, Innovation and Leadership Global Congress on Corporate Growth provided a rare opportunity for executives in the aerospace and defense industry to share ideas, concerns, and strategies, and more importantly to speak frankly about the issues facing the industry today. Concerns both about the success of the industry, and the overall importance of the industry to the health and safety of the United States, provided the framework for a constructive and interactive session that helped open eyes and provide solutions.