

SURVEY

# Top Management Issues Radar 2009

European Aerospace&Defense industry

**Roland Berger**  
Strategy Consultants



## WHY A TOP MANAGEMENT ISSUES RADAR ?

As a leading top management consultancy in the Aerospace&Defense sector in Europe, Roland Berger Strategy Consultants actively supports industry leaders in identifying and structuring future challenges and driving the necessary change in their organizations.

As a result of the important challenges the Aerospace&Defense industry is facing, we have identified a growing need for senior executives to discuss with peers the key issues that drive the industry. This led us to the idea to launch in 2008 a "Top Management Issues Radar of the European Aerospace&Defense industry", a platform for top management thinking.

The present issues radar consists of two building blocks:

- > First, a survey conducted among senior industry executives to identify and prioritize the issues at the top of their agendas. This survey was conducted in March and April 2009 among more than 100 top industry executives representing all segments and several positions in the industry value chain
- > Second, an interpretation of the priority issues identified, listing the survey results alongside specific insights and interpretations provided by Roland Berger Strategy Consultants

We trust you will find the conclusions of the present issues radar interesting and hope they will support you in your strategic thinking and decision making. If there are any issues you wish to discuss in greater depth, please let us know.

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# THE 2009 SURVEY RESULTS ARE BASED ON CONTRIBUTIONS FROM SENIOR EXECUTIVES ACROSS THE AEROSPACE&DEFENSE INDUSTRY

## SAMPLE DESCRIPTION

- > More than 100 top managers from four countries (France, Germany, Italy, UK) responded to the survey
- > 40 firms (commercial aeronautics, defense & security, space) are represented
- > The sample includes OEMs as well as Tier-1, Tier-2 and pure service providers
- > 1/3 of the participants are CEOs

## EXAMPLES OF PARTICIPATING COMPANIES

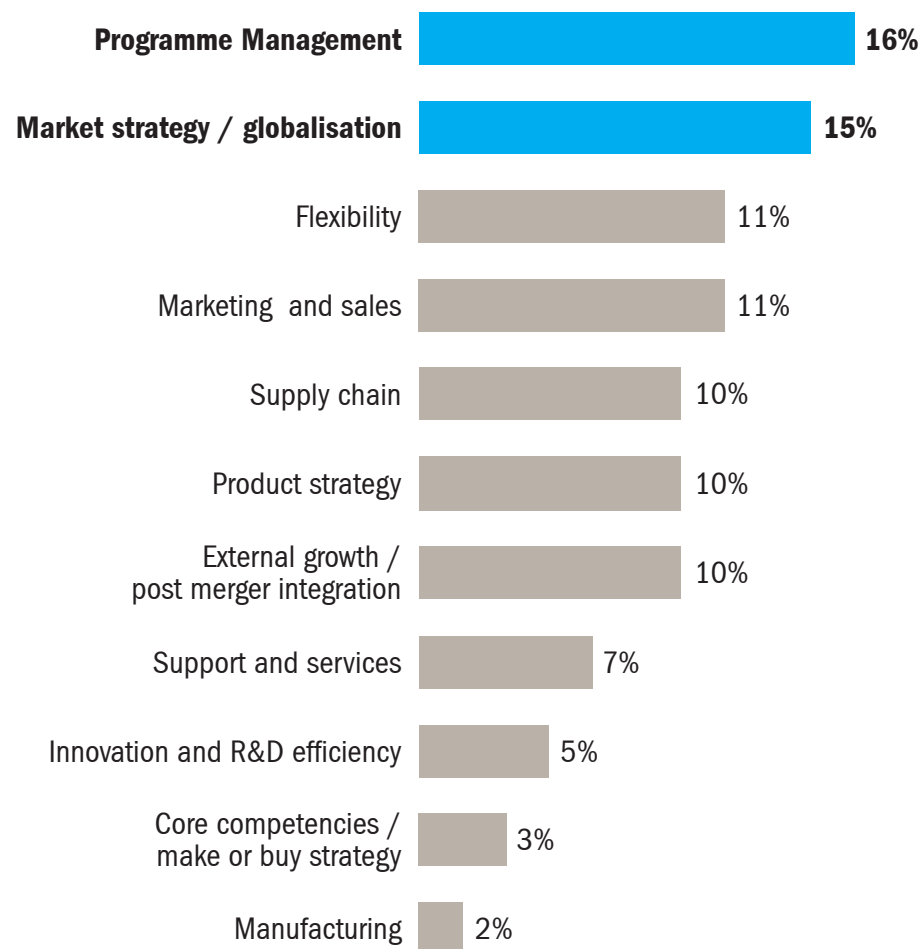


## TABLE OF CONTENTS

- a.** Companies' agendas change as a result of the crisis
- b.** Impact of the crisis on Aerospace&Defense companies and their environment
- c.** Actions initiated to react to the crisis
- d.** Preparation of the post-crisis period

# IN 2009, PROGRAMME MANAGEMENT AND MARKET STRATEGY / GLOBALIZATION ARE ON TOP OF THE AGENDA OF MOST OF AEROSPACE&DEFENSE COMPANIES

## TOP 1 PRIORITY IN 2009 COMPANY'S AGENDA [% APPEARANCES AS TOP 1 PRIORITY]



Source: Roland Berger "Top Management Issues Radar 2009" survey

## RATIONALE AND INDUSTRY TRENDS

### Programme Management

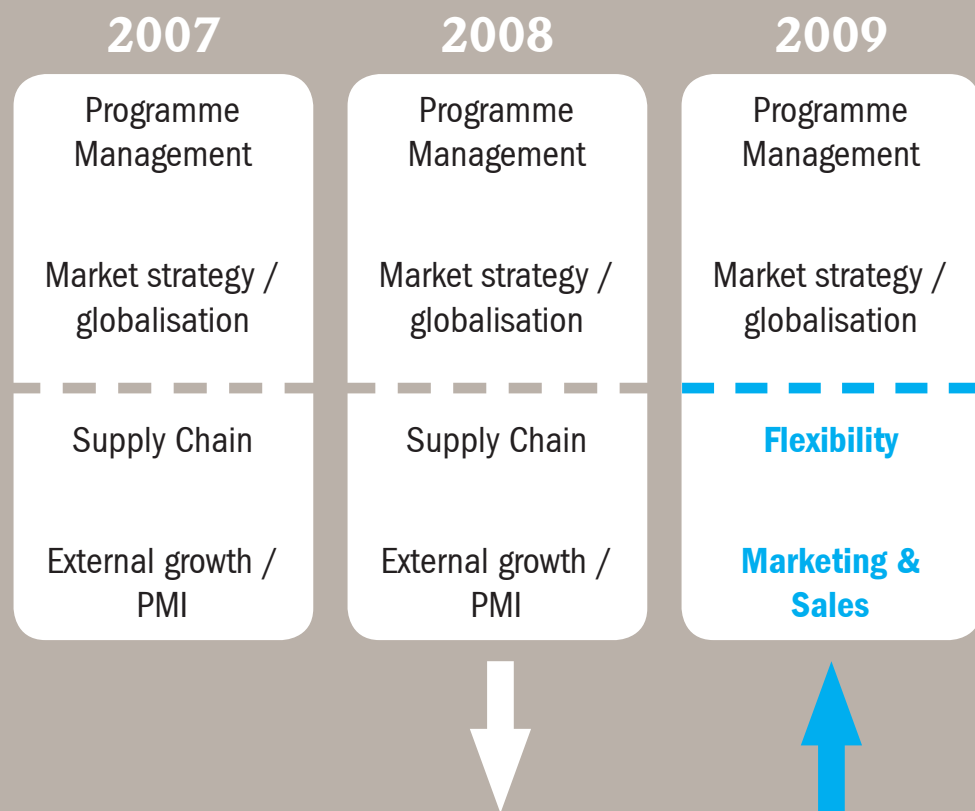
- > Several programmes have still to deal with significant planning slippages and cost overruns
- > Market requirements and companies strategy have made major Programmes even more complex to manage
- > Although Programme Management principles have been set and continuously improved over the last 20 years, their implementation remains problematic
- > Most of companies also have significant difficulties in running Programme organizations which have become more and more complex and managing unanticipated day-to-day impacts of the New Collaborative Models agreed with their key suppliers
- > In practice too, little attention is paid to the development of skills/ competencies aspects even though Programme teams challenges have dramatically changed over past years

### Market strategy / globalization

- > In 2009, companies will keep on looking for alternative development options and most dynamic markets to secure their Top line

# IN A CRISIS CONTEXT, FLEXIBILITY AND MARKETING&SALES HAVE BECOME A TOP PRIORITY FOR MOST AEROSPACE&DEFENSE COMPANIES

## TOP 1 PRIORITY IN 2009 COMPANY'S AGENDA [4 MOST FREQUENT ANSWERS]



## RATIONALE AND INDUSTRY TRENDS

**Flexibility** is perceived as one of the key capabilities to succeed in the industry and especially to deal with:

- > The current context of high uncertainty: production rate and \$/€ exchange rate fluctuations, raw material prices
- > Deep changes of companies environment: development of new clients/ business areas/ needs, increasing pace of innovation, more complex contracting processes, and suppliers bankruptcies...

### Marketing&Sales:

With the increase of deferrals / cancellations of orders, the focus on Marketing&Sales is expected to increase significantly compared to previous years (7th most frequent answer in 2007 and in 2008 and 4th in 2009)

### Supply-chain:

After several years of aggressive production ramp-up, several OEMs are starting scaling-down their production, thus releasing the pressure on their Supply Chain. However, the anticipation and mitigation of suppliers default will become key, as Tier-2 for instance have more difficulties to access to low cost / dollar countries, more limited financial capabilities, ...

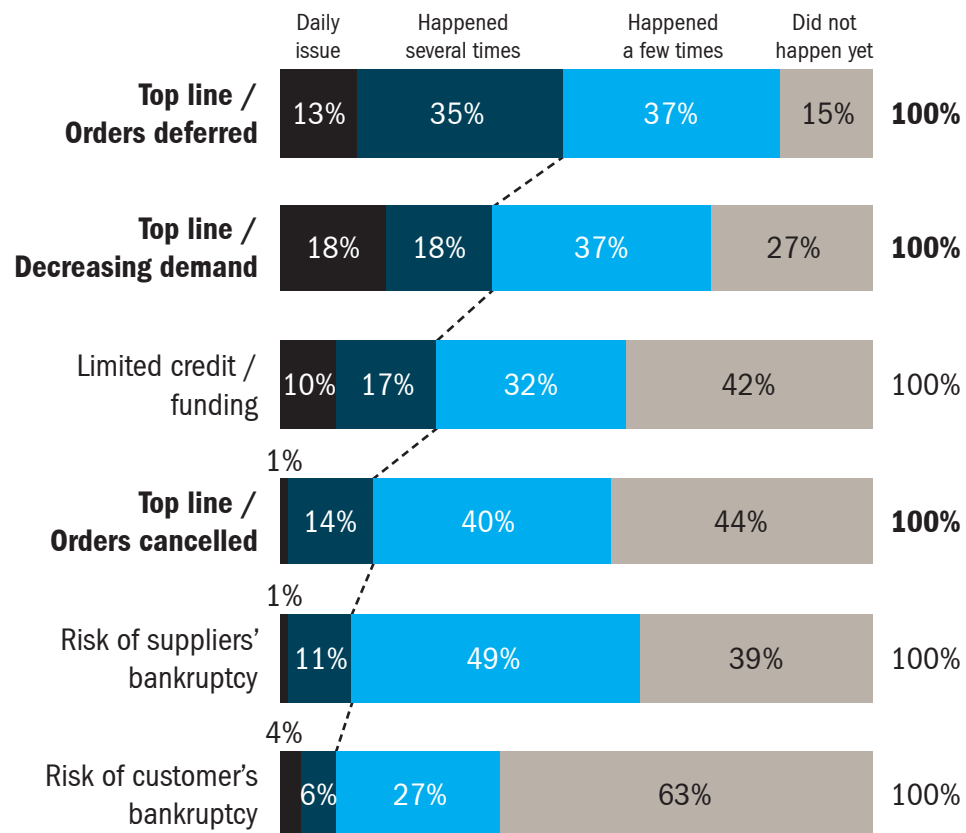
### External growth / PMI:

Initiatives are expected to put "on-hold" as companies lack visibility on market evolution and generally attend to secure their cash position

# THE TOP LINE HAS BECOME THE PRIMARY CONCERN OF MOST COMPANIES

(ORDERS DEFERRED, CANCELLED AND DECREASING DEMAND)

## NATURE OF THE CRISIS IMPACTS PERCEIVED [% ANSWERS]



Note: On top of the items crisis impacts mentioned here-by, some companies also perceive an intensification of a competition at zero-profit-level and longer decision process from customers  
 Source: Roland Berger "Top Management Issues Radar 2009" survey

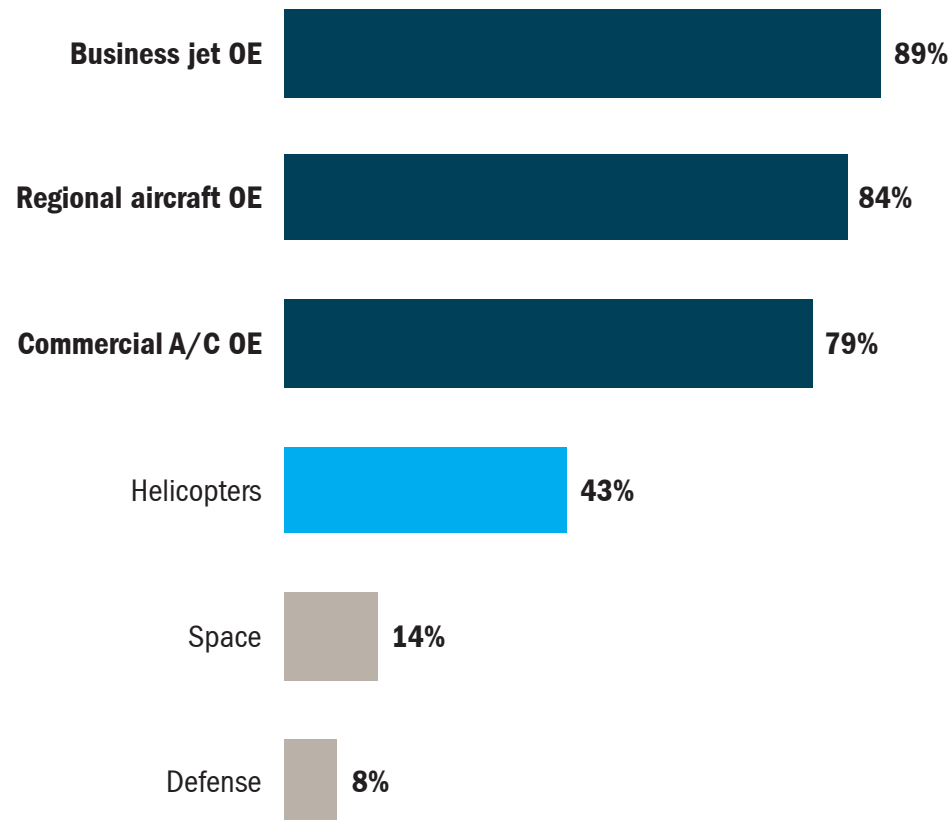
## RATIONALE AND INDUSTRY TRENDS

Most companies seem primarily concerned by the impact of the crisis on their "Top Line" (Orders deferred, cancelled and decreasing demand)

- > 52% of interviewees have perceived so far a limited impact of the crisis of their Incoming Orders (between -5% and +5% during last 3 months v.s. year before)
- > 35% have experienced a -5% to -20% decrease of their Incoming Orders (last 3 months v.s. year before)
- > 8% a drop worse than -20%

# ACCORDING TO INTERVIEWEES, BUSINESS JETS, COMMERCIAL AND REGIONAL A/C (TO A LESSER EXTENT) ARE THE SEGMENTS THE MOST AFFECTED BY THE CRISIS

## BUSINESS SEGMENTS IMPACTED [% ANSWERS]



## RATIONALE AND INDUSTRY TRENDS

**Business jet** OEMs face a significant drop in Incoming Orders as well as cancellations of previous orders (drops in orders intakes leading to negative net Incoming Orders in Q4 2008 or Q1 2009 for major players), mainly due to:

- > Cost cutting policy of companies
- > Executives avoiding that publicity

### Commercial and regional aircraft businesses

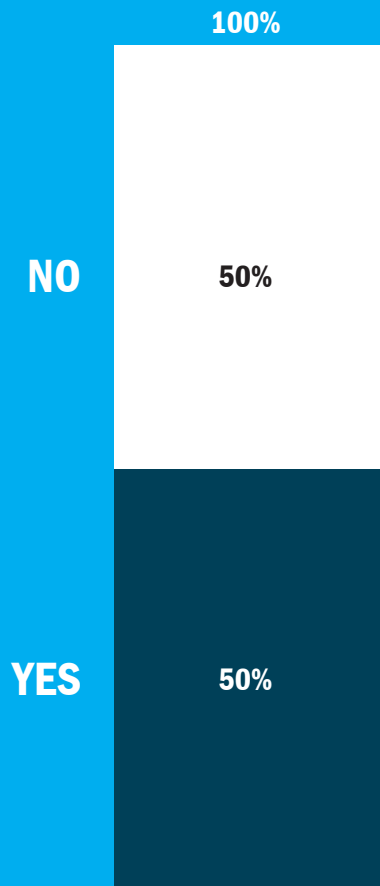
- > Most demand drivers are decreasing:
  - > Slow down of passenger and cargo traffic
  - > Limited credit / capital available to airlines and leasing companies
  - > Lower attractiveness of new generation A/C with lower operating costs (lower fuel burn)
- > Airlines and lessors have started announcing the deferral / cancellation of fleet renewals or development. Despite current high backlogs, OEMs have decided production scale-downs, thus impacting their Supply Chain

**Helicopters OEMs** are less affected by the crisis thanks to a better balanced product portfolio (civil, military, services)

**Defense and Space** segments remain little affected for the moment but may be at risk in the future (e.g. Defense may suffer from cuts in Military spending required to limit government budgets deficits)

# HALF OF INTERVIEWEES HAD PERCEIVED SIGNALS ENABLING THEM TO ANTICIPATE THE CRISIS

## PERCEIVED SIGNALS ANTICIPATING THE CRISIS [% ANSWERS]



## RATIONALE AND INDUSTRY TRENDS

Half of interviewees had perceived signal enabling to anticipate the crisis

The survey highlights 3 main natures of signals:

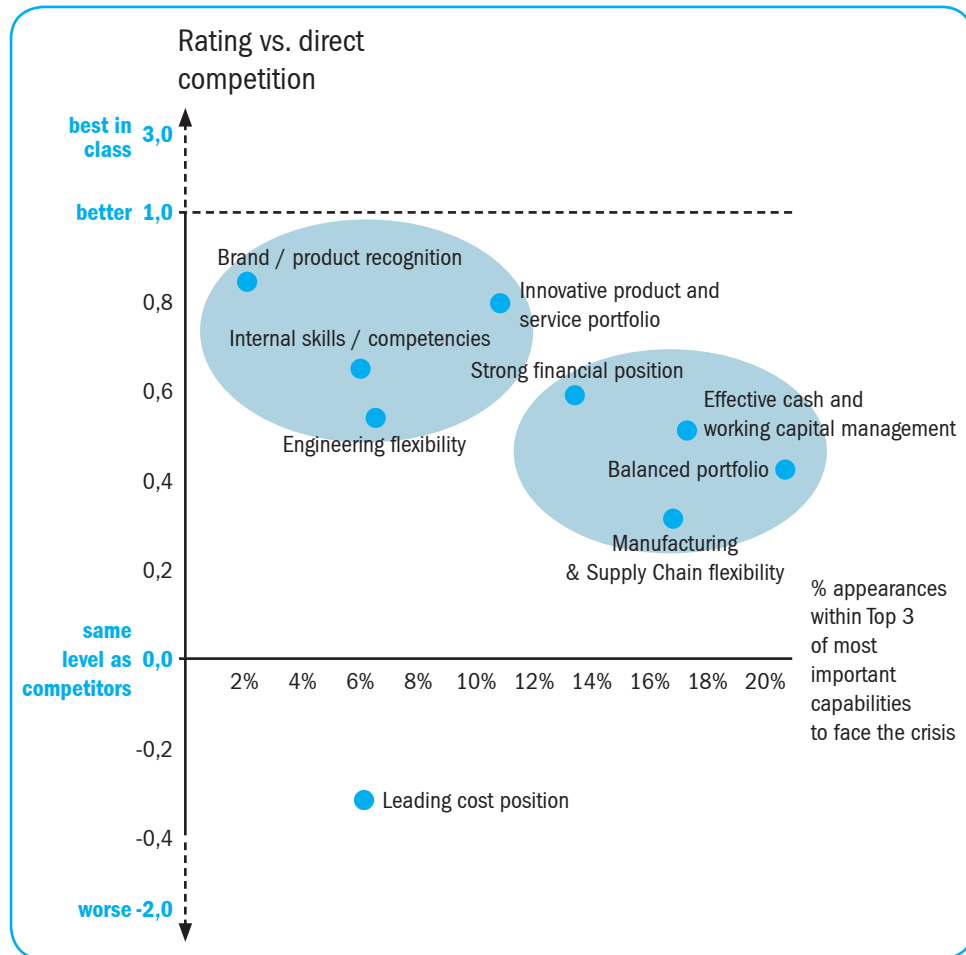
- > Global economic and financial warnings, such *"as the credit crunch since January 2008 and the following deterioration of different markets (houses, automotives, etc)"*
- > Airlines / Lessors business analysis: *"bankruptcy and financial difficulties of many airlines"* announced by the *"increasing demand of the airlines for a by the hour cost without charges upfront"*
- > Aerospace&Defense cycles analysis: signals included OE delivery forecasts but also *"the increasing number of second hand A/C available during spring / summer 2008"*

Other quoted signals include Governmental support for aerospace SMEs / suppliers and financing requests

# INTERVIEWED COMPANIES RATE THEMSELVES WEAKER THAN COMPETITORS ON MOST IMPORTANT CAPABILITIES TO FACE THE CRISIS (VS. OTHER CAPABILITIES)

## CAPABILITIES TO FACE THE CRISIS: IMPORTANCE AND RATING VS. COMPETITION

Source: European A&D Top Management Issues Radar (09)



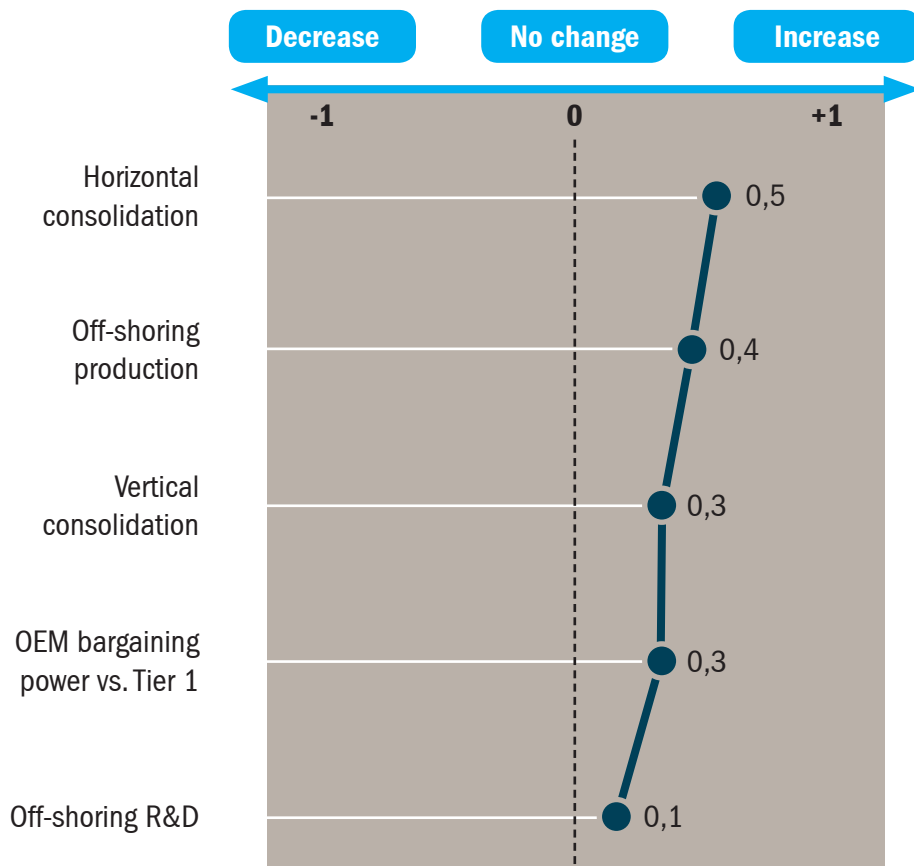
## RATIONALE AND INDUSTRY TRENDS

Aerospace&Defense companies rate themselves weaker than competition on 4 capabilities considered as key to face the crisis (vs. other capabilities):

- > "Balanced portfolio": balance between segments with different cycles as civil / military markets and OEM / aftermarket providing a smooth evolution of the overall turnover
- > "Effective cash and working capital management" and "Strong financial position" to provide resources either to secure current operations or to take advantage of some opportunities resulting from the crisis (e.g. opportunistic acquisition)
- > "Manufacturing and Supply Chain flexibility" (as described earlier)

# IN THE VIEWS OF INTERVIEWEES, THE CRISIS WILL TEND TO ACCELERATE THE INDUSTRY CONSOLIDATION AND THE LONG TERM TREND OF PRODUCTION OFF-SHORING

## EXPECTED INDUSTRY CHANGE DURING THE CRISIS [WEIGHTED % ANSWERS] <sup>1)</sup>



1) Increase (+1), no change (0), decrease (-1)

Source: Roland Berger "Top Management Issues Radar 2009" survey, press, Roland Berger Analysis

## RATIONALE AND INDUSTRY TRENDS

As most of companies may be reluctant to perform acquisitions to protect their cash position, consolidation may occur through joint ventures or associations.

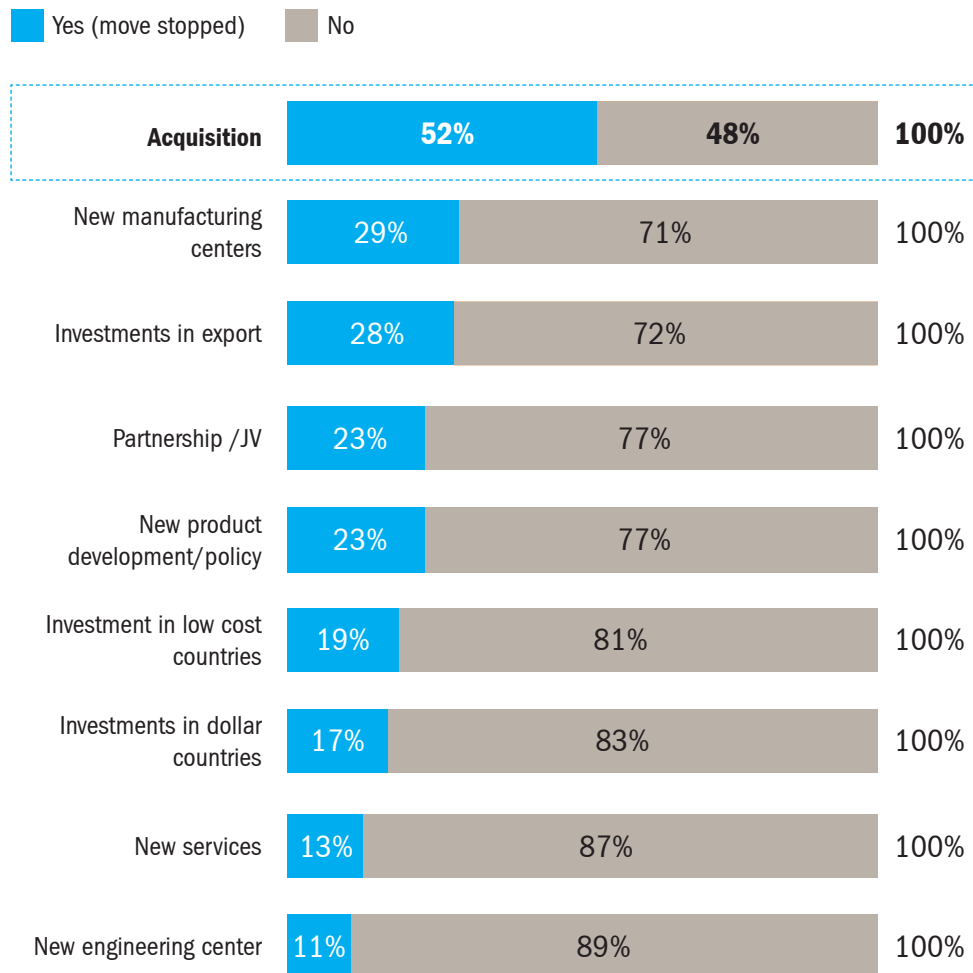
E.g.:

- > Aeroteam created by 4 French Tier-2: Asquini, Sofop, Couso, Gentilin (cumulated turnover: 60 M€)
- > Association of Mecahers, Technic Production, Sotip

OEMs and major Tier-1 are expected to complete the off-shoring projects initiated before the crisis whilst suggesting their suppliers to do the same

# EXCEPT FOR ACQUISITIONS, COMPANIES HAVE NOT STOPPED ON A LARGE SCALE THE STRATEGIC MOVES INITIATED BEFORE THE CRISIS

## STRATEGIC MOVES STOPPED SINCE THE BEGINNING OF THE CRISIS [% ANSWERS]



## RATIONALE AND INDUSTRY TRENDS

The value of defense, aerospace, and government technology deals completed in 2008 totaled \$24.8 billion vs. \$31.2 billion in 2007 <sup>1)</sup>

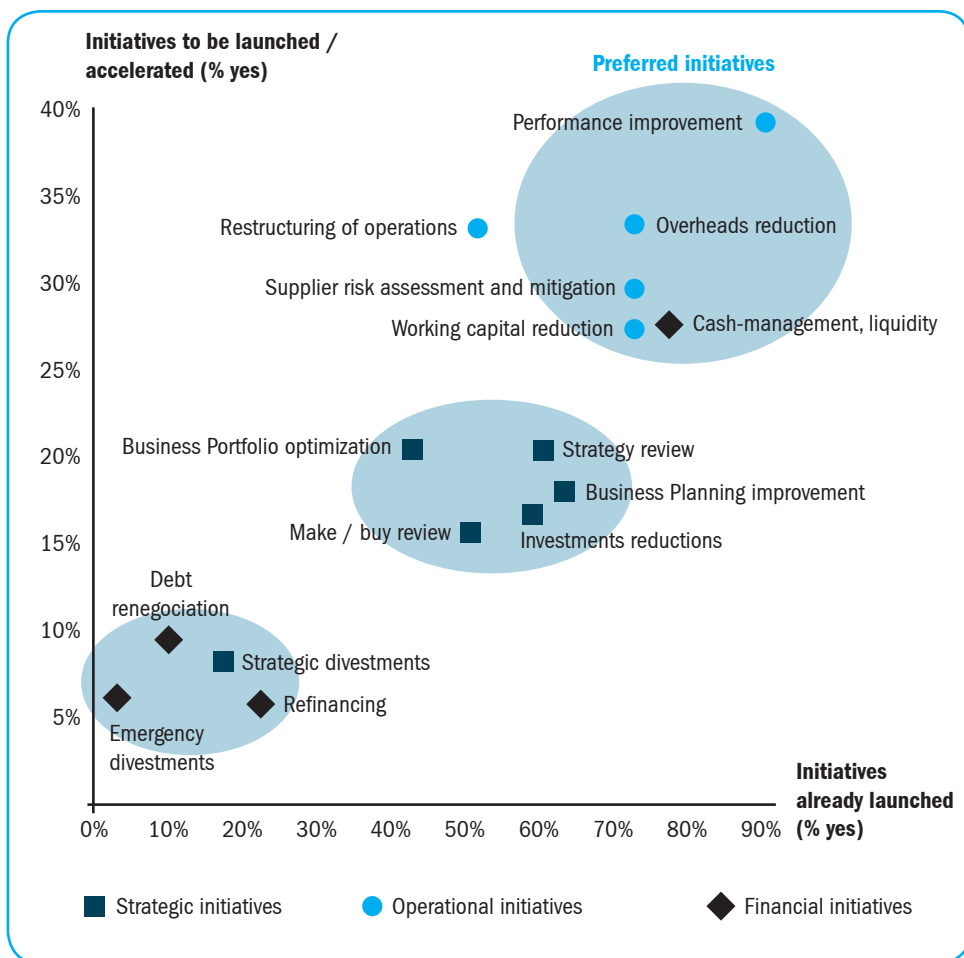
However, positions regarding Acquisition projects differ from a company to another:

- > Several major players already announced they will not lead a major acquisition project:
  - > Until markets get stabilized
  - > To preserve their cash position (financing of own operations, support to suppliers or customers...)
- > Others remain in the running for acquisitions (growth strategy or opportunistic acquisitions)

1) Source: InfoBase Publishers

# MOST OF COMPANIES HAVE PREFERRED SO FAR OPERATIONAL AND STRATEGIC INITIATIVES (VS. FINANCING) TO COUNTER THE CRISIS

## INITIATIVES TO COUNTER THE CRISIS



## RATIONALE AND INDUSTRY TRENDS

Most of companies have preferred so far operational and strategic initiatives vs. financial ones (except cash management)

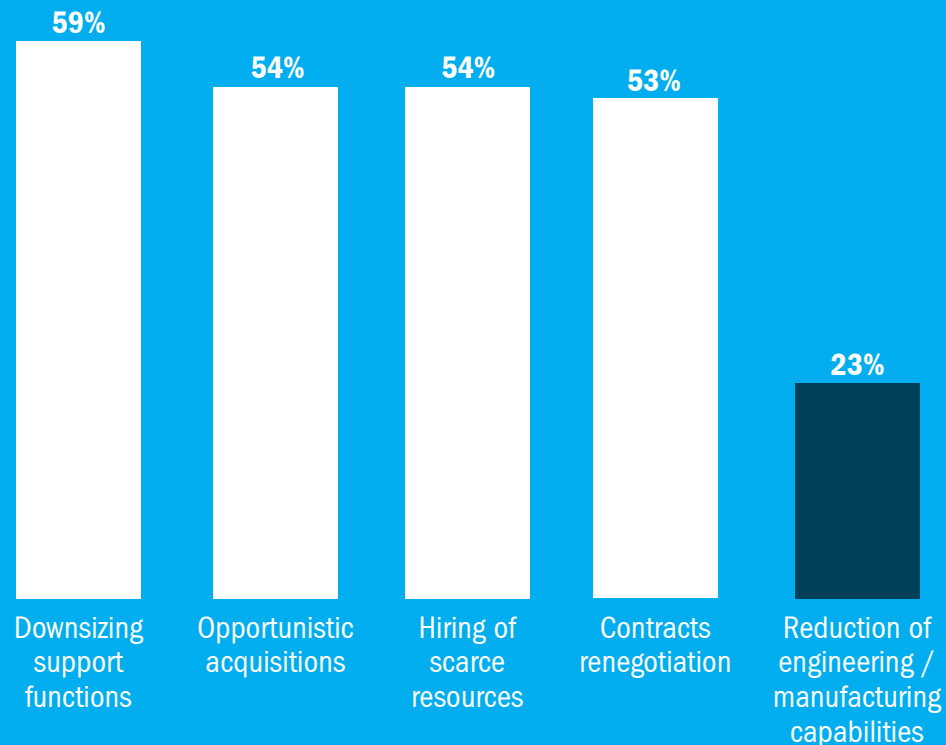
- > Performance improvement and Overheads reduction: most of major players have already announced cost reduction plans. The actions quoted the most frequently include: overheads and temp labour reduction, G&A costs cutting, industrial efficiency improvement programs
- > Supplier risk assessment and mitigation: the anticipation and mitigation of suppliers default will become key as Tier-2 for instance have more difficulties to access low cost / dollar countries, more limited financial capabilities,...

In case of need to increase efforts, interviewees believe that:

- > The initiatives already launched will be accelerated in priority
- > Restructuring of operations will be launched more frequently

# INTERVIEWEES CONSIDER THEY MAY ALSO TAKE ADVANTAGE OF SOME OPPORTUNITIES RESULTING FROM THE CRISIS

## OPPORTUNITIES RESULTING FROM THE CRISIS [% OF YES ANSWERS]



## RATIONALE AND INDUSTRY TRENDS

Aerospace&Defense companies consider they may take advantage of some opportunities resulting from the crisis, mainly:

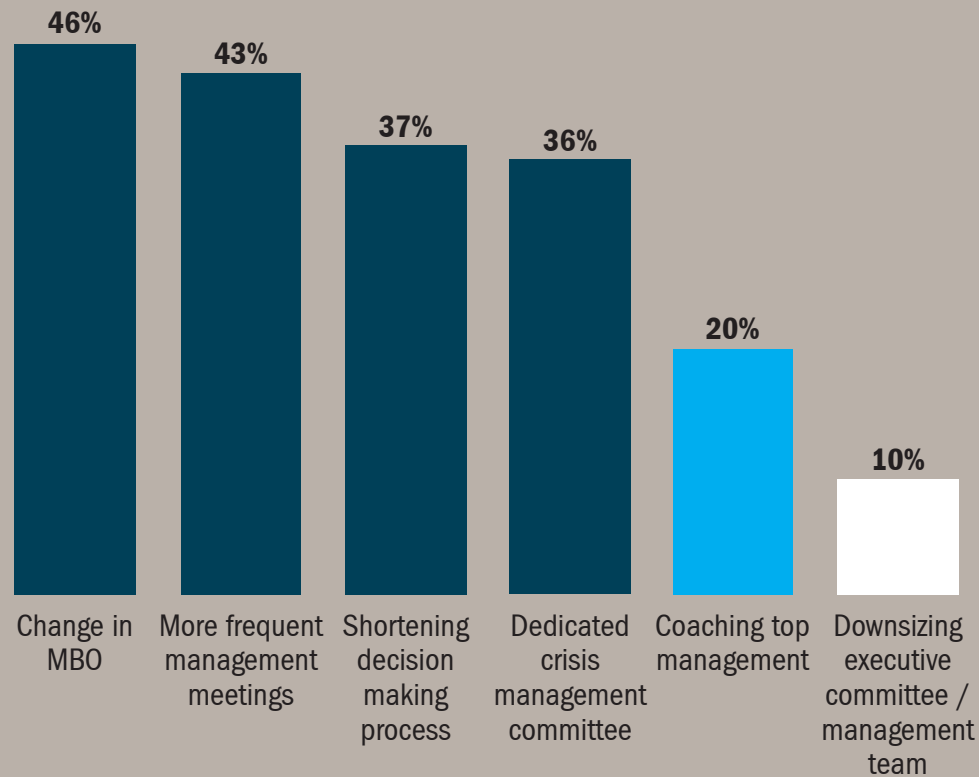
- > Downsizing support functions: the crisis context may be used as a decision driver and a "change management" enabler for process re-engineering and downsizing
- > Opportunistic acquisition: although considered by half of interviewees, few acquisition projects / deals have been announced to date (high uncertainty, protection of cash position)
- > Hiring of scarce resources
- > Contracts renegotiation

Other opportunities mentioned include, for instance the acceleration of footprint rationalisation and migration to low cost production environments

Finally, the crisis is also perceived as a favourable context to lead organizations to become more customer oriented

# THE CURRENT CRISIS HAS ALSO IMPACTED COMPANIES MANAGEMENT STYLE

## CRISIS IMPACTS ON MANAGEMENT STYLES [% YES ANSWERS]

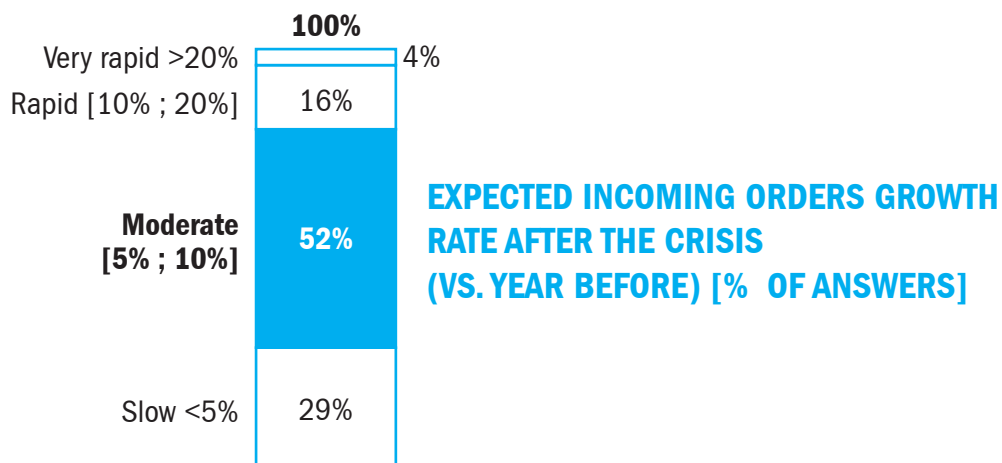
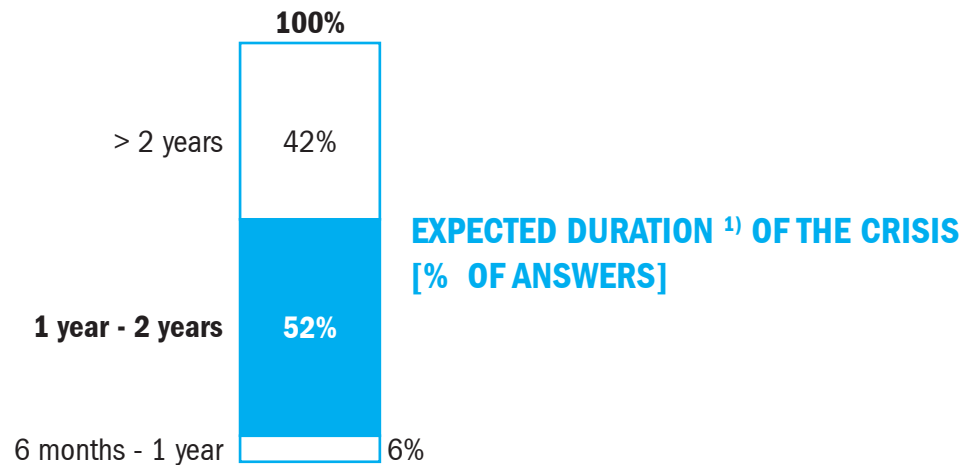


## RATIONALE AND INDUSTRY TRENDS

Other adjustments mentioned include:

- > Training (how to manage through a downturn)
- > Creation of Change Management initiatives
- > Increase in transparency and sharing of information

# INTERVIEWEES EXPECT THE CRISIS TO LAST FOR AT LEAST 1 TO 2 YEARS AND ANTICIPATE A MODERATE RECOVERY



1) Companies have been interviewed in March / April 2009

## RATIONALE AND INDUSTRY TRENDS

Two consensus clearly appear:

- > The current crisis will have a minimum duration of 1 year (starting March / April 09)
- > The Incoming Orders growth rate after the crisis will not exceed 10% (vs. year before)

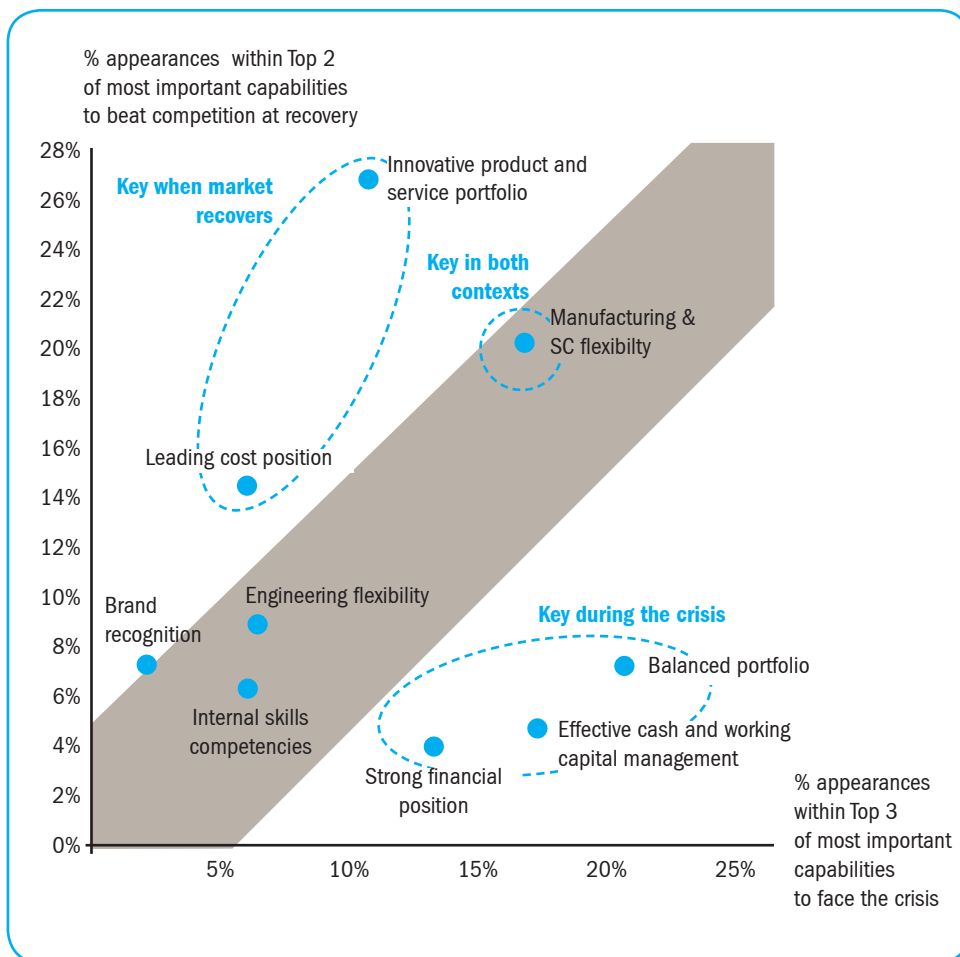
On the contrary, companies tend to have different interpretations of the current context: "crisis" or "beginning of a new cycle"

Indeed, the mid-term evolution of most of market drivers are still highly uncertain:

- > Passenger and cargo traffic
- > Customers profitability related to GDP growth
- > Availability of capital and credit

# FLEXIBILITY OF BOTH MANUFACTURING AND SUPPLY CHAIN ARE KEY TO FACE THE CRISIS AND BEAT COMPETITORS WHEN THE MARKET RECOVERS

## CAPABILITIES TO FACE THE CRISIS & BEAT COMPETITION AT RECOVERY



Source: Roland Berger "Top Management Issues Radar 2009" survey

## RATIONALE AND INDUSTRY TRENDS

"Manufacturing & Supply Chain flexibility" is stressed as a key capability both during the crisis and when the market recovers

"Innovative products and services portfolio" will be key at recovery ...

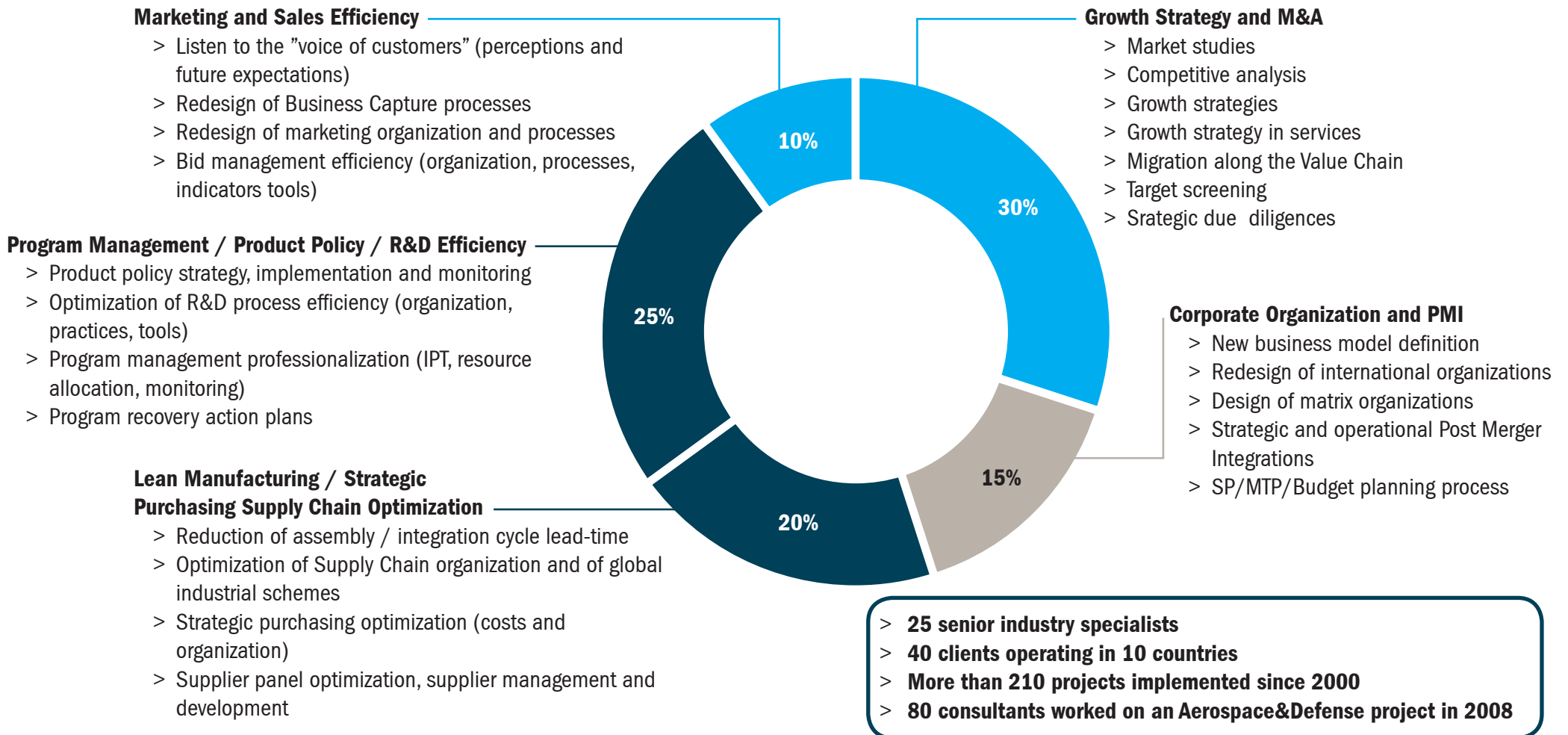
- > Several companies announce:
  - > Maintaining or even already increasing the R&D expenditures
  - > Reviewing the management of their innovation process
- > In order to be able to propose cutting edge solutions as soon as the market recovers

... as well as having "Leading cost position":

Most of interviewed companies considered or have launched cost reduction plans addressing direct or indirect costs

# THE AEROSPACE&DEFENSE TEAM BENEFITS FROM A COMPREHENSIVE INDUSTRY AND FUNCTIONAL EXPERIENCE THANKS TO 210+ PROJECTS CONDUCTED SO FAR

## SPLIT OF PRACTICE TURNOVER BY TYPE OF PROJECTS



## EUROPEAN CONTACTS



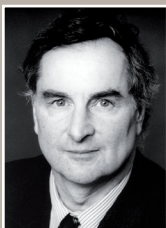
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R. Thomson, J. Wahler

Roland Berger Partners, Principals, Project Managers and teams who helped  
us to collect the data with the participating companies: M. Fanelli, F. Guenard,  
A. Hanan, M. Koerfer-Schuen, A. d'Oultremont, M. Mostajo, A. Rekik,  
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